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FUTURE OF WORK AND EDUCATION FOR THE DIGITAL AGE

Evaluating options for funding and financing post-compulsory education

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Abstract

Technological change and other challenges have inspired many countries to seek new approaches to funding and financing post-compulsory education and there is a growing body of evidence on the efficacy of specific approaches in particular circumstances. It is not easy for policymakers to learn from the experience of other countries however and a risk that mistakes will be expensively and wastefully repeated. This paper proposes a way to develop a trans-national resource that would enable those responsible for this sector rapidly to identify those approaches to funding and financing that might be most appropriate to their circumstances.

Challenge

Developing new and more effective mechanisms for financing post-compulsory education is a matter of increasing concern for governments in many countries. The nature and pace of technological change makes increased investment in this stage of education more necessary even as other social changes, for example those associated with an ageing population, make competing claims upon the public purse. Rapid change emphasises the need for flexibility and responsiveness on the part of education institutions while issues of inequality and social exclusion point to a need to direct resources more accurately to where they are most needed.

The same technological changes that present challenges to the education system also open up an increased range of potential solutions. For example, governments can now access much more detailed information about the circumstances, progress and achievement of students and use this to modify funding allocations to institutions. It is possible to develop systems of individual learning accounts or implement loan arrangements where repayment is contingent on a student's income. It is also the case that the potential of technology to improve the operation of post-compulsory education might be overstated or misapplied leading to adverse consequences.

There are now many examples of innovation in financing mechanisms to which policymakers could refer when seeking to adapt their post-compulsory education systems to new contexts. Some are described in international literature such as the publications of the OECD or CEDEFOP. Many however are only accessible in research papers or grey literature for individual countries. For illustrative purposes this paper draws on twelve approaches developed in England over the past two decades for which some descriptive and evaluative material is available. (Brief details are given in the appendix.)

The challenge for policymakers is twofold. Firstly there is a need to identify the range of potential examples from which they might learn and from those select those approaches which appear most promising given the specific circumstances and policy priorities they face. The fact that the twelve examples used in this paper represent only some of the innovations developed in one country illustrates the scale of such a task. The second challenge is how to evaluate the potential efficacy of the selected approaches, bearing in mind that contexts and objectives differ both between jurisdictions and over time. There is therefore a need for a systematic approach to collecting, describing, evaluating and sharing information on successful (and unsuccessful) attempts to introduce innovative approaches to funding and financing post-compulsory education.

Proposal

The proposal is that the T20 should seek to develop a trans-national resource that would enable policymakers rapidly to access information about new approaches to funding and financing post-compulsory education and to identify which examples might be particularly relevant to their own circumstances. This would involve the collection and collation of information from different countries but would also involve the systematic analysis of this information against agreed criteria so that it is more readily accessible in summary form. It is with this latter aspect of the task that this paper is principally concerned.

It is proposed that policymakers should seek to evaluate the appropriateness of any specific mechanism with reference to two sets of criteria. The first relates to what might be termed the internal characteristics of the mechanism, regardless of context; the second set seeks to identify the principal objectives with which policy makers could be concerned and might be termed external. They are described in some detail below.

‘Internal’ criteria

This section outlines six key criteria against which the suitability of any financing mechanism might be judged. Limiting the length of the list to any specific number is to some extent arbitrary as it is always possible to argue for splitting one of the criteria into two or more. The primary principles applied in determining the list however have been completeness – that all important considerations might be included under one or another of the criteria; distinctiveness – that it is possible for a mechanism to be judged as performing well on one criterion but not on another; and manageability – the list needs to be short enough to be applied in practice. This is not to say users should consider it 'cast in stone': any discussions around this topic should include consideration of whether potentially important issues are excluded or obscured, or indeed whether two or more criteria might be combined without serious loss.

The key criteria proposed are:

1. Efficiency. This refers to the operational efficiency of the mechanism itself, not the efficiency of the education system to which it relates, which is a different, though equally relevant, question. It is important that the financing mechanism itself does not require a disproportionate share of the available resources for its own operation. An extreme, though not unknown, example of an inefficient mechanism might be the requirement for institutions frequently to submit detailed bids for relatively small sums of money.

2. Transparency. This criterion refers to the extent to which relevant stakeholders in the education system – institutions, users and public authorities – are aware of how the mechanism operates and know what is going on. As used here this term also relates to accountability and objectivity; governments can only properly be held to account if their dealings are visible, based on an overt rationale and available for scrutiny. Similarly the term is used here to include aspects of 'robustness' i.e. the capacity to gain advantage by 'gaming the system' is minimised.

3. Predictability. Predictability is closely allied with transparency but is not the same thing. A mechanism based on rolling forward the sums allocated in previous years might be highly predictable but offer no basis for accountability. Predictability is important in facilitating institutional planning and allowing stakeholders to align their actions; it reduces the need to hold unproductive contingency reserves. Predictability might be more important at some times than others.

4. Flexibility. Since the world is constantly evolving an effective mechanism must be able to cope with changing circumstances, and also allow institutions to be adaptable themselves. The salience of this criterion will differ with the context – in a rapidly developing nation, or a sector experiencing discontinuous change it will be more important than in more settled circumstances. There are perhaps some tensions between flexibility and predictability or transparency such that in practice it will not be possible to optimise all three.

5. Acceptability. It is important that any financing mechanism is 'felt fair' by key stakeholders in order to minimise the likelihood of action to subvert or circumvent it. As stakeholder interests are not identical this requires a complex balancing act. Other than in the most complacent of circumstances transparency is probably a necessary but not sufficient condition for acceptability. There is probably some tension with flexibility since in most changing contexts there will be winners and losers.

6. Saliency. In some ways the most important criterion for judging the efficacy of a funding mechanism is the extent to which it is aligned with the overall goals of the education system and delivers outcomes supporting those goals. Since the goals of those responsible for education systems differ the suitability of any specific mechanism will, in important respects, be governed by context. To put it at its most simple, if the overriding policy objective is to reduce unit costs a different approach will be required from a context where widening participation is key.

‘External’ criteria

As noted earlier, the suitability of a mechanism will in part be determined by the purposes of the education system it serves. This section therefore outlines aspects of policy that might be emphasised at different times or in different jurisdictions. It is important to emphasise that although they are presented as ideal types it is highly unlikely that one policy thrust would ever rationally be pursued to the exclusion of all others; it is hard to conceive for example that any government would completely ignore the efficiency of the system or equally, have no interest other than reducing its unit cost.

Financing mechanisms are not the only lever available to governments seeking to influence the behaviour of institutions. Arrangements for governance, inspection or performance management can have an equal or in some cases more powerful effect and may be the more appropriate policy choice. The role of these other levers is not considered further here but a good overview of experience in England 1994-2014 can be found in ‘Coming of Age for FE’.

It is also relevant to note here that the distinctive nature of financing mechanisms for post-compulsory education derive in part from its specific context. The six criteria outlined in the previous section could equally well be applied to schools in the compulsory phase of education. In the post-compulsory sector financing mechanisms have also to reflect the fact that participation is voluntary for example or that learners are also voters. It is probably the case that the content of post-compulsory education, as defined for this paper, is more varied than either the compulsory phase or indeed initial higher education.

The policy objectives considered the most important for this paper are:

1. Increasing efficiency. In simple terms increasing the efficiency of post-compulsory education can mean seeking to do more for the same amount of funding or achieve the same output for less. Potential mechanisms include approaches designed to increase competition between institutions or changing the basis on which funds are allocated to reflect outputs rather than input costs. Increasing efficiency may or may not be in tension with other objectives such as promoting growth or equity depending on the mechanisms used which in turn are influence by other aspects of context (ie is there a need to cut expenditure overall)

2. Improving sustainability. This refers to the desirability of safeguarding post-compulsory education from either significant fluctuations in funding or substantial long term decline. In recent years in the UK this has generally been taken to mean increasing (or at least stabilising) private investment from individuals and employers, though a shift from grant to loan funding for a large part of post-compulsory education also has the benefit of stabilising government expenditure on the sector. The apprenticeship levy (a hypothecated payroll tax on large employers) plays a similar role.

3. Promoting equity. Increasing access to post-compulsory education by disadvantaged or under-represented groups is a frequent policy objective and at times a dominant one. Measures to improve equity can include differential funding rates for types of programme or student; the application of grants or bursaries for some categories of student and restrictions on the eligibility of some activities for support (e.g. only funding the first qualification at a given level) Making loan repayments contingent on income has a similar objective.

4. Generating growth. In many jurisdictions increasing the numbers of participants in adult learning at all levels has been a key objective. Approaches designed to promote growth include some versions of competitive funding models, simply removing caps on growth or the introduction of levy schemes of various sorts. Policy makers have also sought to encourage growth by reducing costs to participants, whether by removing up-front costs (loans) reducing fees (changed course design / delivery) or helping meet direct & indirect costs (bursaries) One role of individual learning accounts has been to influence individual demand for learning.

5. Shaping Priorities. Governments are often as interested in influencing the mix of post-compulsory education provision as in its overall size. Of recurring interest is the objective of aligning the outcomes of education with the presumed needs of the labour market. Mechanisms adopted to this end include changing the rates of funding given to providers for specific subjects, restricting the eligibility of certain programmes for public funding support and attaching specific conditions to general funding allocations. Routing public funding via employers has been seen as a way of ensuring that training providers focus on employers needs rather than their own preferences.

As an illustration the two sets of criteria have been applied to twelve financing mechanisms applied in England in the past two decades (further details are presented in the appendix). The results are summarised in the grids below.

In order to take this proposal forward it will be necessary to undertake work in two stages. The first stage would be for an expert group to be tasked with developing and refining the evaluative criteria described above. Among the questions that need to be considered are whether the 'internal' criteria are

- Sufficiently distinct from each other that they need to be considered separately
- Internally coherent or perhaps need further subdivision
- Are severally exhaustive or whether there are other criteria to add

The group would also need to address the question of whether the list of policy objectives identifies the major ones for consideration or whether there are others to add.

Finally the group would need to consider how best to present the summarised information whether using grids as illustrated or in some other fashion. Part of this task would be to reach agreement on a scoring system; whether to use judgements (High, Medium, Low as illustrated) a numerical scale or some other method.

The second stage would be to identify, analyse and collate information about funding and financing systems on the basis of the format agreed by the expert group. This could take the form of a single commission to an individual company or agency, or an agreed programme of co-operation between a set of nominated institutions. The expert group might be able to advise on the most appropriate vehicle for taking the work forward.

Analysis of selected financing mechanisms

	Operational Efficiency	Transparency	Predictability	Flexibility	Acceptability
Competitive funding	high	high	medium	medium	medium
Price competition	high	medium	low	high	low
Output-related funding	medium	high	medium	high	medium
Income contingent Loans (HE)	low	high	medium	medium	medium
Loans (FE & apprentices)	low	high	low	medium	low
Learning Accounts	low	high	low	medium	medium
Co-Funding rules	medium	high	low	medium	medium
Financial institution	low	low	low	medium	medium
Apprenticeship levy	low	medium	low	medium	medium
Train to Gain programme	medium	medium	low	low	medium
Bursaries & EMA	low	medium	low	low	medium
W P funding uplift	medium	medium	medium	medium	high

Impact of selected financing mechanisms on policy objectives

	Efficiency	Sustainability	Equity	Growth	Prioritising
Competitive funding	high			high	
Price competition	low		low		
Output-related funding	medium				
Income contingent Loans (HE)		high			
Loans (FE & apprentices)		low			
Learning Accounts		low			
Co-Funding rules		medium		low	medium
Financial institution		low			
Apprenticeship levy		high		low	medium
Train to Gain programme		low	medium		high
Bursaries & EMA	medium		high		
W P funding uplift			medium		medium

References

1. For a good summary of the impact of funding mechanisms in the English FE sector see 'Coming of Age for FE' Hodgson, A. (Ed) IoE Press 2015

2. A little dated but interesting accounts of the unintended consequences of funding systems can be found in 'For better or worse' Fletcher, M. (Ed) FEDA 2000

3. Some of the impacts of Output Related Funding can be found in House of Commons Briefing SN/EP/4849 2009

4. For an introduction to the debate on HE fees in England the website of the Higher Education Policy Institute is very useful http://www.hepi.ac.uk/2018/03/21/5523/

5. The National Audit Office report on Individual Learning Accounts is at https://www.nao.org.uk/wp-content/uploads/2002/10/01021235es.pdf

6. Issues around co-financing are explored here http://dera.ioe.ac.uk/3981/1/talking-about-fees-providers-policy-and-practice-on-course-fees.pdf

7. The National Audit Office report on the Train to Gain programme is available at https://www.nao.org.uk/report/train-to-gain-developing-the-skills-of-the-workforce/

8. A summary of evidence on Education maintenance Allowances in contained in 'Should we end the EMA' Fletcher, M. (Ed) CfBT Education Trust 2009.

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