

Internal consequences of external performance-based funding – some Finnish experiences

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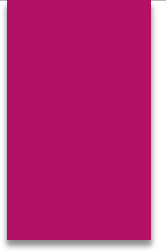


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«Participation In International Educational Studies»

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- ▶ Finnish performance-based funding model
- ▶ Internal funding models of Finnish universities
- ▶ University governance in Finland

Finnish performance-based funding system



Context

- ▶ Currently Finnish university funding system is one of **the most performance-oriented funding models** in the world
- ▶ **73% of core state funding** (1,6 billion euros) is based on performance-indicators: **throughputs, outputs** and **outcomes**
- ▶ At the same time, **the autonomy of universities** have been increased significantly (organizational, financial autonomy, staffing autonomy)
- ▶ **Strong dependency of public funding** remains at high level despite the push for greater resource diversification (public exp. at 96,2%, currently highest among EU/OECD countries)
- ▶ Effects of the recent reforms **are currently being evaluated** by an independent third party (a consulting company, report due August 2016)

Development timeline

- ▶ Performance-based funding model has been developed systematically in several phases **over the past 20 years**
 - **1980's**: Line-item budgeting, historical & incremental allocations
 - **Early 1990's**: block grants, input oriented funding formula
 - **Late 1990's**: block grants, output elements (degree targets) included in the funding formula
 - **Transition period** for introducing performance-based funding 1998-2003 (effective 15% in 1998, 100% in 2003)
 - Model was **revised** in every three years (1998-2012) and currently in every four years (2013-)

Example 1: 2004-2006 model

Core funding ^{II} (M€ 1 013)							
Extent factor (19%)			Educa- tion (44%)	Research (30%)	Societal services (7%)		
Basic component (M€ 65)	New students (M€ 65)	Facilities (M€ 65)	Master's degrees (M€ -447) - targets 2/3 - realised 1/3	Graduate schools (M€ 38,5)	Doco- rates (M€ -262) - targets 2/3 - realised 1/3	Open university (M€ 13) - targets 2/3 - realised 1/3	- Other societal services (M€ 60)

- Actual core funding (89.4 %)
- Financing of national tasks (1.5 %)
- Financing of national programmes (4.7%)
- Project funding (1.9 %)
- Performance-based funding (2.4 %)

- Development of studies (two-cycle degree structure, student selection, quality assurance)
- Virtual university
- Development of teacher training
- National health project
- Language technology
- Business know-how
- Biotechnology
- Russia action programme
- Information industry
- Regional development

Quality of research and artistic activity

- Centres of excellence in research, designated by the Academy of Finland
- Academy of Finland financing
- Other external research funding
- Centres of excellence in artistic activity, designated by the Arts Council of Finland

Quality, efficiency and effectiveness of education

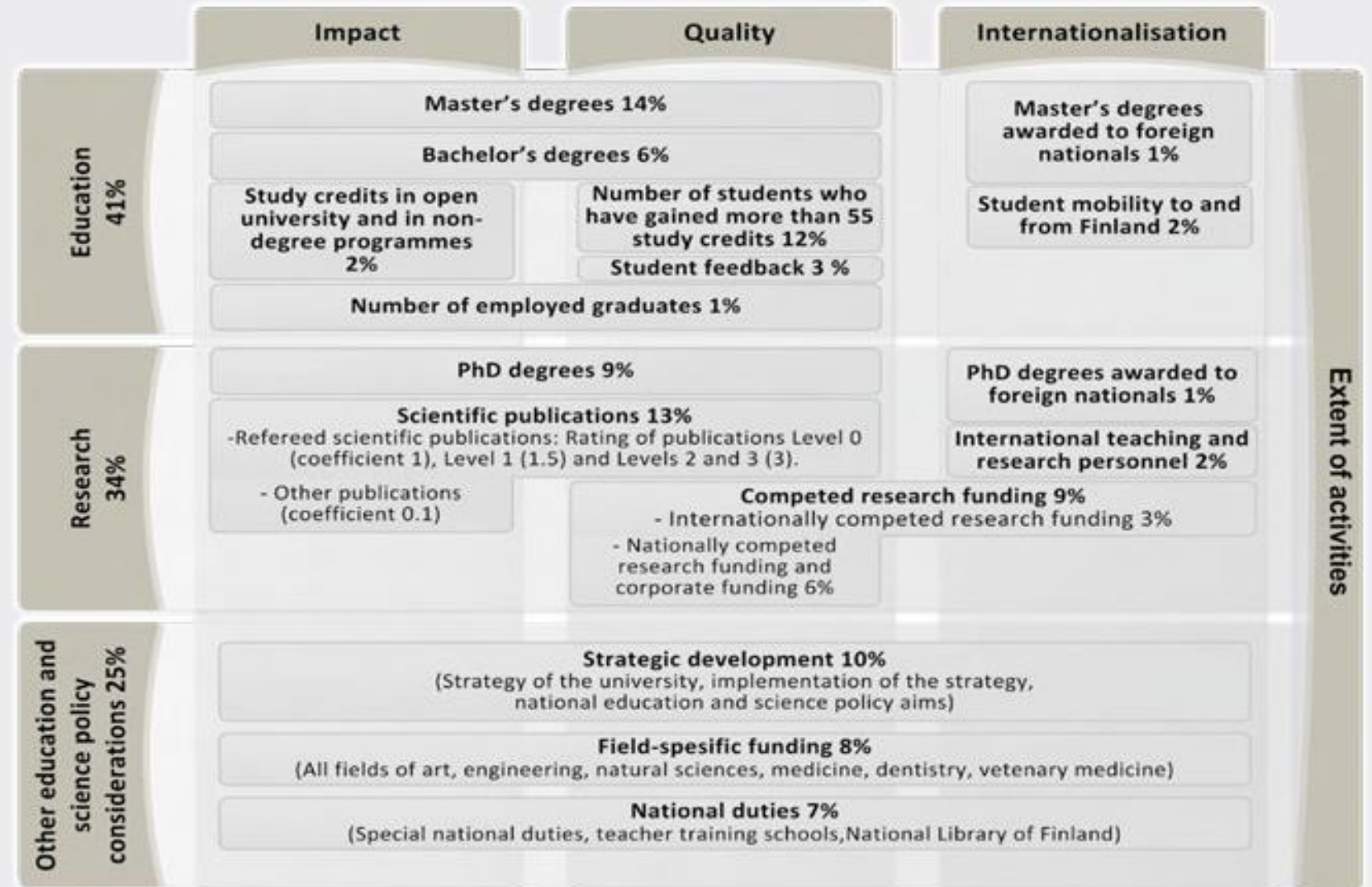
- Centres of excellence in education, designated by the Higher Education Evaluation Council
- Universities of excellence in adult education, designated by the Higher Education Evaluation Council
- Progress in studies: credit accumulation, the proportion of Bachelor-level graduates, duration of studies before graduation
- Graduate placement: the unemployment rate and changes in it
- Internationalisation: student exchanges, balance in exchanges, degrees awarded to foreign students

Weighting for Master's degree (until 2012):

- I group (1.25):** humanities, economics, law, theology, health sciences and social sciences
- II group (1.5):** education, sport sciences and psychology
- III group (1.75):** technology, natural sciences and forestry-agriculture
- IV group (3.25):** pharmacy, veterinary sciences, dentistry and medicine
- V group (arts):** fine arts and art & design (3.75), music (4.5), and theatre and dance (5.5)

Example 2:

Universities core funding from 2015

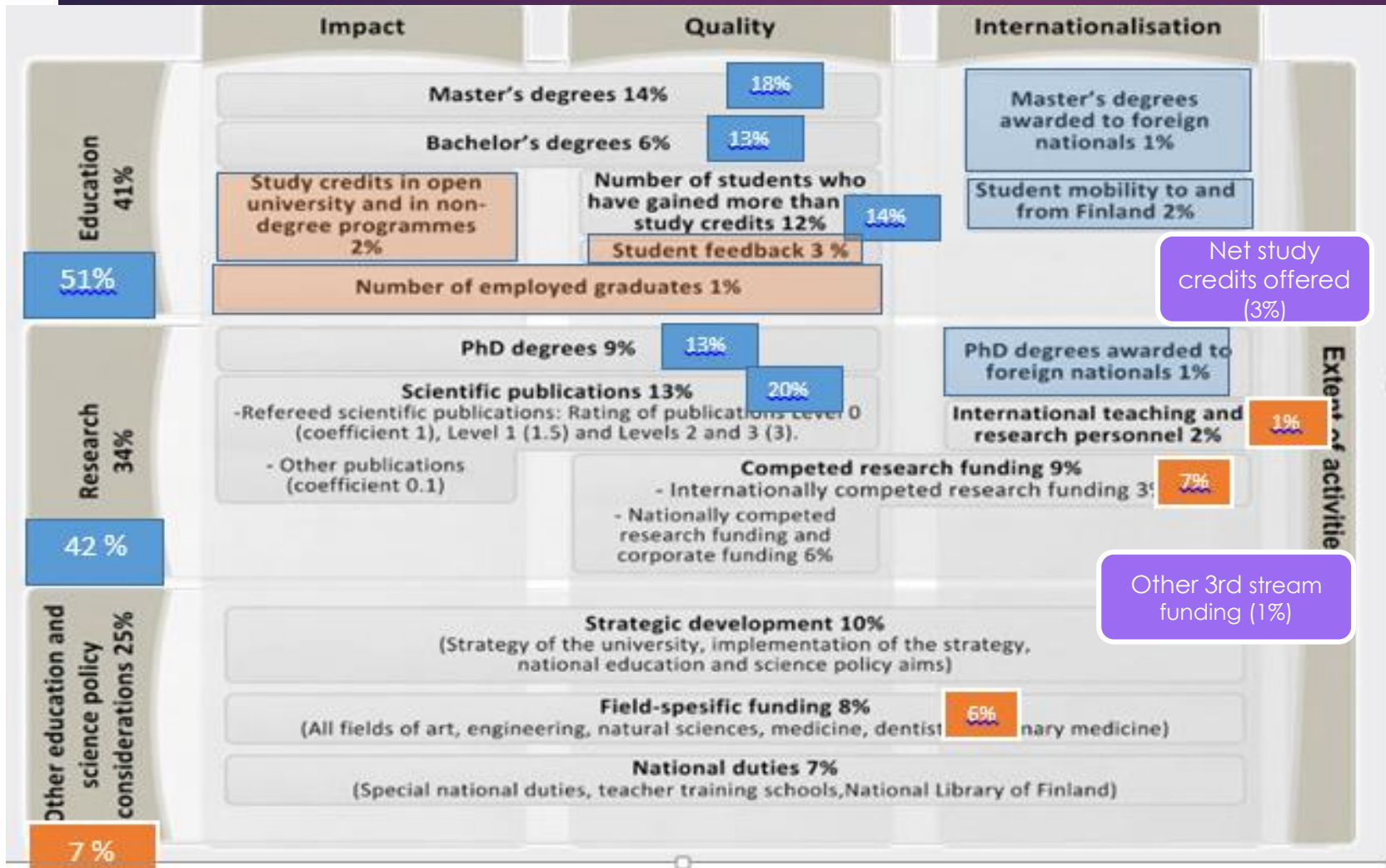


Internal funding models

Internal allocation models

- ▶ Universities have **full autonomy** in organizing their internal funding models, a **great level of diversity** across universities
 - National model has **not been copied** but it is significantly adjusted in institutions (more stabilizing elements, less / different performance elements)
 - Performance indicator **weighting has been adjusted** according to the specific institutional characteristics: Strategic goals and different profiles, institutional culture, size of the university etc.

Example: Internal PBF formula (UTA) compared with national formula for Schools (performance units)



- Other categories of internal funding:**
1. Base funding (2012 level) for academic units
 2. Administrative services for all units, library, language center
 3. Strategic funding
 4. National duties
 5. Other expenditure (e.g. expenses of the board, rector, open university)
 6. Division of accumulated surplus (optional)

Example: Survey for Finnish university leaders

(199 respondents, 45% response rate)

Funding received from the university is based on

	1 low degree	2	3	4	5 high degree
Annual negotiations	16 %	8 %	15 %	28 %	34 %
Previous budgets	10 %	9 %	21 %	35 %	25 %
Measured performance	8 %	10 %	22 %	34 %	27 %
Earmarked funding	12 %	23 %	25 %	25 %	14 %
Other	53 %	9 %	13 %	13 %	13 %

My unit decides on its own resource allocation model

	1 not at all	2	3	4	5 to a large extent
	13 %	17 %	26 %	16 %	29 %

University-level strategic goals have an impact on the allocation of resources

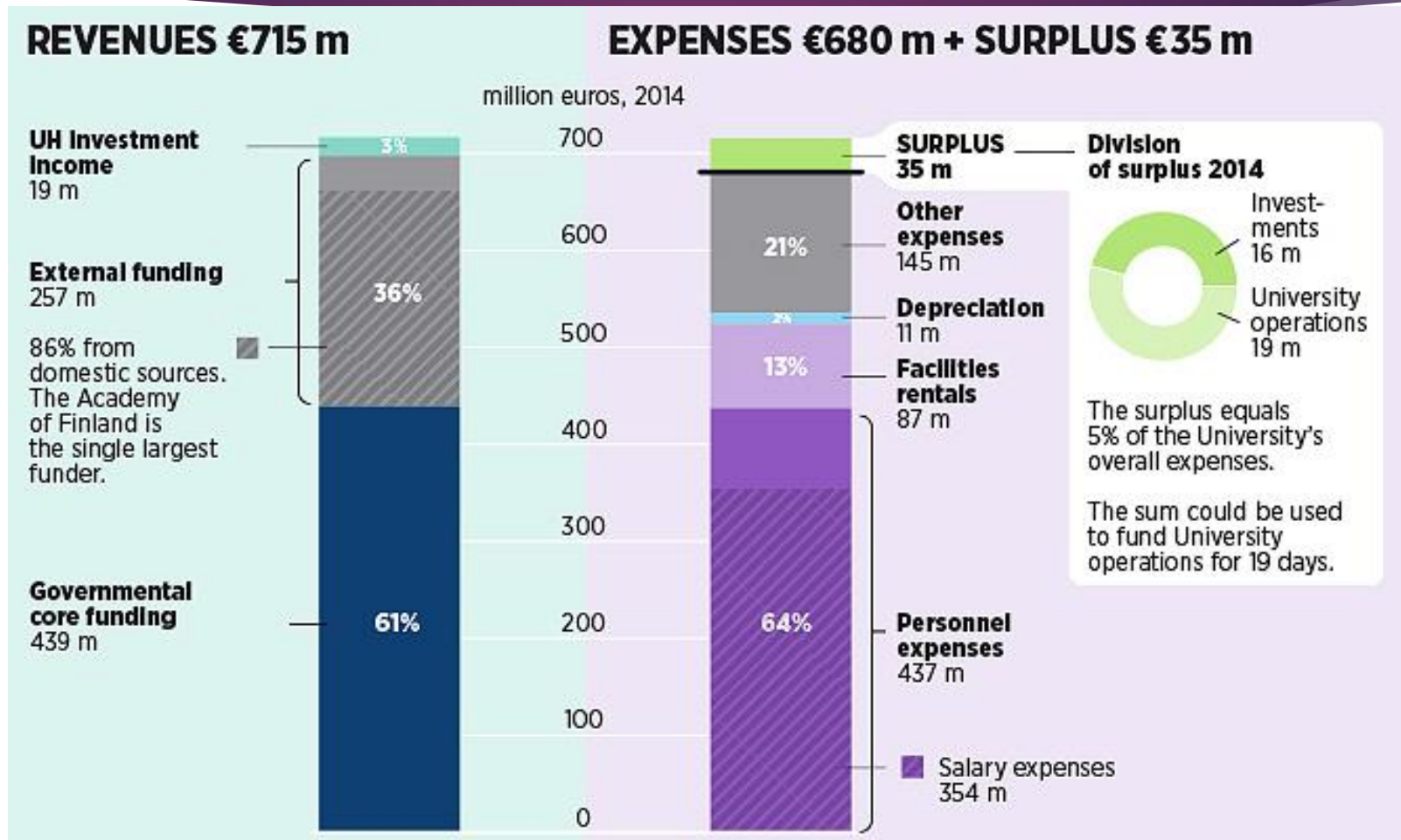
	1 not at all	2	3	4	5 to a large extent
At university level	2 %	11 %	23 %	38 %	27 %
At faculty level	2 %	11 %	30 %	41 %	16 %
At unit level	6 %	14 %	28 %	32 %	20 %

Source:
Pekkola, Lyytinen & Kivistö 2016

Some important details

- ▶ Performance funding is calculated by using **3-year averages** (as in the national model)
- ▶ Performance exceeding the set target level is often **NOT rewarded**
- ▶ Most performance units are **NOT allowed** to keep a surplus in the end of the financial year (unlike universities)
- ▶ Accumulating the **third party funding mostly at the responsibility of performance units** (a possibility to reduce the intra-institutional resource dependencies)
 - The share of third party funding differs between institutions (typically 30-40%, mostly public), great differences between performance-units (e.g. Medical Schools vs. Humanities)
 - Introduction of the full cost model for third party funded projects in 2008-2010, university overheads vary greatly (70-130% out of total salary costs per project)

Example: University of Helsinki

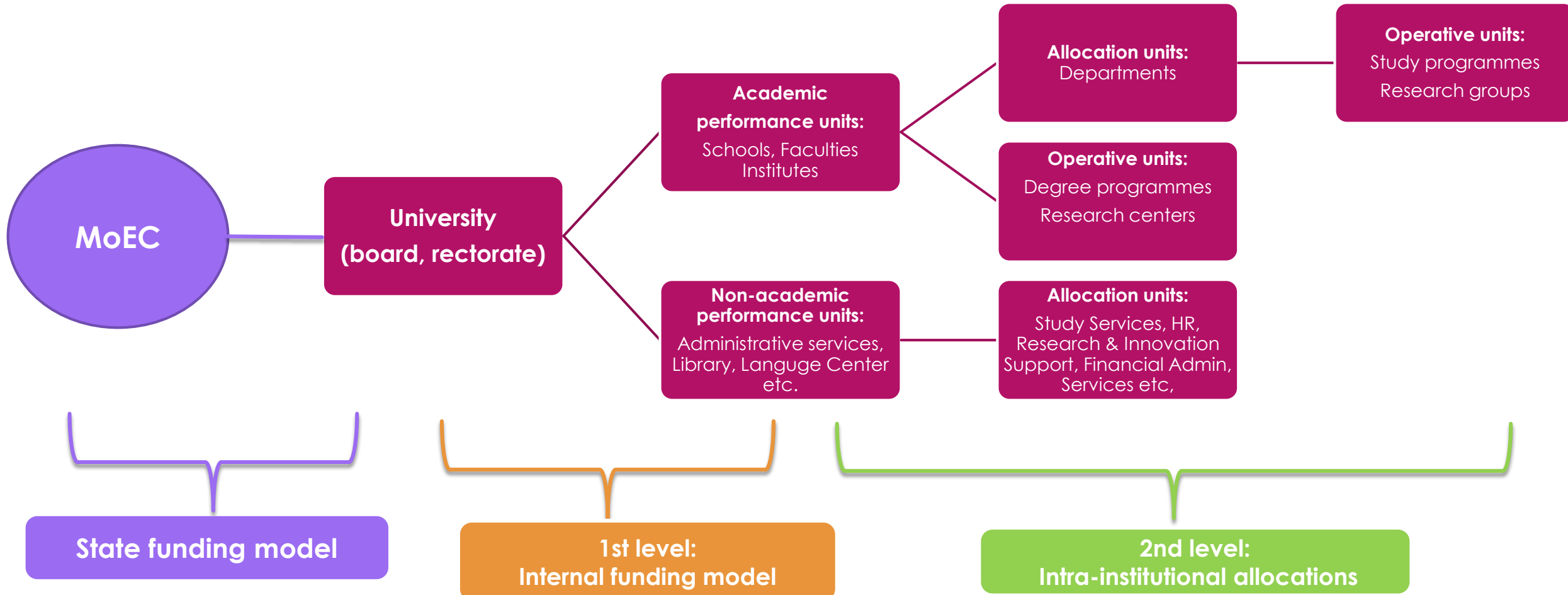


Governance structures

Governance structures

- ▶ Universities have enjoyed significantly **higher level of autonomy** after the legislative reform in 2010
- ▶ **Institutional governance bodies:** CEO-type of rector, relatively strong boards (40-100% external members), weaker academic representative organs (“university collegiate body”)
- ▶ **Units:** Trend for bigger unit sizes both in academic and administrative sides
- ▶ **Leadership:**
 - Introduction of **full-time deans**, appointed by the rector/board (not selected by fellow academics)
 - Establishment of **superior-subordinate** relationships at all levels
 - Stronger **managerial orientation** (power & responsibility), weaker level of collegiality (e.g. abolishment of departmental councils, role of faculty boards vis-à-vis the dean)

Example: Structure of performance units



Example: Typical decision-making structure and division of main responsibilities

Actor	Main responsibilities
University board	<ul style="list-style-type: none"> • Approves the strategy of university • Holds responsibility over the operating and financial plans of the university (operating budget + investment plans) and the financial sustainability of the institution • Decides on the internal funding model • Approves the annual budget • Chairman of the Board signs performance-agreement with the MoEC together with the Rector (in every 4 years)
Rectorate (Rector + Vice-Rectors)	<ul style="list-style-type: none"> • Oversees the preparatory work for the board • Oversees the budget implementation • Negotiates annually with performance units about objectives and targets, development activities to be taken etc., gives written feedback for the units
Deans, faculty councils, directors of institutes and non-academic units	<ul style="list-style-type: none"> • Financial responsibility on budget and performance of the unit • Holds responsibility over the operating and financial plans of the unit • Decides on the principles of intra-unit allocations • Responsibility for accumulating third party funding (part of the annual operating and financial plan)
Department heads , other lower level leaders and managers	<ul style="list-style-type: none"> • Oversees the realization of intra-unit budgets in their own sub-units • Superior to employees

Considered aspects when deciding on organizational structures

Aspects favoring larger unit-size:

- ▶ Financial capacity and sustainability (risk bearing)
- ▶ Strategic management capacity
- ▶ Administrative capacity
- ▶ Effectiveness of university governance and coordination

Aspects favoring smaller unit-size:

- ▶ Educational and scientific compatibility
- ▶ Flexibility, responsiveness
- ▶ Effectiveness of incentives
- ▶ Specialization

Thank you!

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