

# **A Comparative Study on the Financing of Vocational Education & Training in the United Kingdom, Germany and Finland**

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## **Introduction to the study**

In order to successfully materialize the construction and operation of a life-long vocational education and training system that can respond to the changes in the economic environment of knowledge-based societies, it is indispensable to secure the necessary financial resources at the right time, and to maximize the investment effects through efficient financial management. Seen from this perspective, Korea's financial systems of vocational education and training possess several problems. In seeking a new financial system of vocational education and training that resolves these problems and proactively responds to future economic environment changes, comparative studies of the related policies and systems of the world's major countries can provide meaningful suggestions. Hence, this study has compared and analyzed the financial systems of vocational education and training of the U.K., Germany, and Finland from the viewpoint of "Who should take how much burden of the investment costs of vocational education and training so that the 'who' and the 'how much' are proper?" and "How should the secured financial resources be distributed and supported in order for this to be rational?". And, this study has extracted the policy suggestions regarding the improvement of the system in Korea.

Specifically, by applying the 4 types of analytic reference standards of the internal efficiency, external efficiency, equity and adequacy from the standpoint of "Are the financial systems of vocational education and training of the U.K., Germany, and Finland appropriately responding to the environmental changes in vocational education and training policies?", each

country's vocational education and training systems, financial resources for vocational education and training, the distribution of finance, support methods, and the operational organizations of the finances for vocational education and training have been analyzed.

### **Comparison of financing systems of vocational education and training of the U.K., Germany and Finland.**

#### **▶Financial resources for vocational education and training**

In the case of initial vocational education and training, in the U.K. and Finland, the governments' budget, students' tuition, the European Union's (EU's) social fund, and the vocational education and training organizations' own income are the main financial resources. In contrast, in Germany, other than these financial resources, private enterprises have played their roles as an important financial resource. In the U.K. and Finland, the governments' financial support has been replenishing a significant portion of the financial resources of the initial vocational education and training. In the case of Finland, the relative weight of the burden of the Ministry of Education has recently decreased. On the other hand, it has been showing a trend of the ratio of the burden by the city governments increasing. In the case of Germany, most of the financial resources of the industry-based training of the dual vocational education and training system have been supplied by individual corporations. Such a case of Germany raises a number of implications for Korea where the establishment and operation of an actual school-industry cooperative systems are inadequate.

In the case of continuing vocational education and training, in the U.K., Germany and Finland, the government, corporations, and the European Union's (EU's) social fund have been the major source of financial resources.

As stated in the recently announced 'Skills Strategy' white paper, the U.K. plans to pursue a policy which endows a priority order on national financial investments in the vocational education and training for the acquisition of the Level 2 Qualification and in the case of the vocational education and training

of a higher qualification level the relative importance of the burden of the individuals, who are the direct beneficiaries, is gradually increased. In contrast, in Finland, although the need for additional financial resources has been emerging as the importance of continued vocational education and training for adult workers has increased due to the arrival of the knowledge-based economic society, the issue of increasing the burden of the trainee individuals and the negative reactions received have remained the mainstream. In the case of Germany, individuals are made to pay a part of the training costs only in the case of the worker receiving training outside enterprises.

In order to provide vocational training opportunities to the unemployed, the U.K. has been securing the necessary financial resources through the central government (Department for Education and Skills, Treasury, and Department for Work and Pension) and the EU's social fund. Germany has been securing such financial resources through the federal government, state governments, unemployment insurance, the European Union's Social Fund and individual corporations. And, Finland has been securing such financial resources through the Ministry of Education, the EU's social fund and through private corporations.

The commonalities related to the securing of the financial resources for vocational education and training in the U.K., Germany and Finland are that the government plays the main role, the portions paid by the individuals are extremely limited, and as a result of an increase in the need for vocational education and training, alternative plans for securing the needed financial resources are being discussed.

#### ►The distribution of vocational education and training finance

Although the distribution mechanisms of vocational education and training finance are different by country with respect to the details of the calculation of the distribution and the amount of support, it has been shown that the amount of support is basically calculated (formula-based system) on the basis of the calculation formulas set up by the form of the vocational education

and training, and the method of distributing this as a lump sum has been adopted. In the case of the U.K., ever since the introduction of the Learning and Skills Councils, a common distribution method which promises the integration of the planning and financing of the vocational education and training of those who are 16 years old or older, introduces the national funding formula, and ultimately applies to enterprise-based vocational training, further education colleges, sixth-form schools, and adult vocational education and training has been under development. To the national funding formula, the weight of the program, the equity index, the regional cost index, etc. have been applied, thereby taking into account the differences of the cost of education by program, the provision of the opportunities for vocational education and training regarding the disadvantaged students, and the differences among the regional living costs. In the case of Finland, too, basically it uses a method which distributes the budget as a lump sum by calculating the distribution amounts based on the unit costs per student and the number of students. In the case of the vocational training for the unemployed, the Ministry of Labor has been deciding on the amount of support budget by considering the size of the regional labor force, the number of the unemployed, the unemployment ratio, the number of new workplaces (jobs), foreign laborers, and the changes of the situations of the regional labor markets.

In order to raise the effectiveness of investments in vocational education and training, the U.K. and Finland have been implementing performance-based financing methods. In the case of the U.K., the results of the investments in vocational education and training have been evaluated based on the retention ratio, the ratio of the persons who have acquired qualification certificates among the number of persons who have completed programs, and the ratio of employment. LSCs make financial agreement with the DFES and the vocational education and training providers, regarding the level and the amount of the vocational education and training and the qualitative results. Finland, too, has been developing and applying a system in which the results of the vocational education and training, including the employment ratio, the

retention ratio, the drop-out ratio, etc. are evaluated, and in which this result is linked to financial support. The budget of the central government's support is calculated by subtracting the education costs borne by the city governments from the budget calculated by applying the performance evaluation indices and the number of students to the unit cost per student. Such a output-related financing mechanism generates negative effects along with the positive effects. Countermeasures which can prevent the side effects of the programs that causes creaming effect, the operation of low-cost, short term programs, etc. must be carried out.

In Germany, too, recently it has been pointed out that the investments in vocational education and training have not been systematically linked to the qualitative improvement of the vocational education and training.

#### ►The organizations of vocational education and training finance

The three countries, the U.K., Germany and Finland, have been operating public organizations that carry out the work of securing and distributing the financial resources of vocational education and training at the central government and regional government levels. In the case of the U.K., the Treasury, DFES, and the Ministry of Labor, which are the main financial resources for vocational education and training, have been playing major roles of securing and distributing the financial resources for initial, continuing vocational education and training, and vocational training for the unemployed. The LSCs, which integrate and operate the planning and finances of the education and training policies for those who are 16 years or older at the regional government level, can be said to be a unique organization which the other two countries do not have. The LSCs have been introduced to heighten the consistency, transparency, and efficiency at the national, regional, industrial, and local levels with regard to the planning and implementation of the vocational education and training policies for those who are 16 years old or older. The U.K. has been attempting to improve the efficiency of the operation of the vocational education and training systems through establishment and operation of the systematic cooperative relationships with

LSCs, RDAs, and SSCs.

In the cases of Germany and Finland, different from the U.K., the regional governments have been involved in the distribution of the budgets for vocational education and training. In the case of Germany, with regard to the initial vocational education and training, the federal government/Federal Labor Authority, the state governments, and the corporations have been involved in securing and distributing financial resources. And, with regard to the continuing vocational education and training, other than these organizations, the Labor Office has been participating in the financial operations. In Finland, the regional government organizations like the city governments and the city joint committees and the National Regional Office have each been in charge of the work of distributing financial resources for the initial and continuing vocational education and training. In other words, each different organization has been distributing budgets according to the types of the vocational education and training.

In the U.K., Germany and Finland, the Ministry of Labor or the Federal Labor Authority bear the responsibilities of financing vocational training for the unemployed. While in the distribution process, the U.K. and Finland each utilizes such independent organizations on the regional unit as Job Center Plus, regional employment and economic development centers, and the Regional Labor Office, Germany, on the other hand, distributes financial resources through state governments. In this way, each country has been establishing and operating organizational systems to be the most rational by adjusting to the unique characteristics of the country.

### **Policy implications**

There is a need to carry out a plan that expands the cost bearing of private enterprises and individuals in order to secure new financial resources for the establishment and operation of lifelong vocational education and training systems. This is because the first beneficiaries are, indeed, individuals and enterprises that employ and utilize trained manpower. It is

necessary to approach such securing of the financial resources for vocational education and training step by step while considering the changes in the need for vocational education and training, nation's financial capabilities, the degree of readiness of the enterprises and individuals, etc.

There is a need to scientifically calculate and utilize the distribution criteria with regard to the distribution of the finances for vocational education and training. There must be developed and applied separate individual indices which can not only calculate the unit costs by field of vocational education and training, by method, by level, and by form but that can also reflect the forms and levels of the regional prices of commodities and the disadvantaged classes. In addition, to improve investment outcome, a more scientific and systematic evaluation of vocational education and training must be performed. A system which develops scientific evaluation tools, and regularly collects and analyzes data must be made available.

From the macroscopic and long-term perspective, organizational reformation for the establishment of a new vocational education and training system that integrates vocational education and vocational training is needed. In the new vocational education and training system, organizations that carry out the work of planning and pursuing policies, securing and operating of finances, systematically analyzing the needs for vocational education and training, executing policy evaluations, etc. must be constituted and included and systematic cooperative relationships among these must be established. Connecting, coordinating, and integrating the work related to vocational education and training of such bodies as city halls, provincial authorities, metropolitan and provincial education authorities, regional labor authorities, the labor office, regional small- and medium-size corporation authorities must be pursued gradually over different phases. With regard to the establishment of a new vocational education and training system, participation of private enterprises in the regions are indispensable, and a way to induce their participation must be deliberated and implemented.