

# The taximeter system

*Taximeter management deals with the state's total financial framework for educational purposes.*

## The institutions' revenue and activity levels

The self-governing educational institutions have two sources of revenue for financing their educational programmes: state grants and their own income from income-generating activities, participant fees and fees paid for unemployed people in activation programmes, etc.

State grants amount to approximately 80 per cent of the total funding and are thus the primary source of revenue for the institutions. Of this amount, activity-level determined grants (teaching, building and maintenance, or collective expenses taximeters) total approximately 92 per cent, so that by far the greatest part of state funding consists of taximeter funding.

The taximeter system is thereby the primary appropriation model for distributing state funding, but it is also necessary to supplement the taximeter management with a number of supplementary management tools in the form of basic grants, targeted research and development funds, multi-year agreement models, etc. in order to ensure that the collective financial management is flexible enough to meet various political, administrative and institutional needs.

The national financial management must therefore both meet the demand for the efficient distribution of funds and, at the same time, support the educational political



objectives regarding, among other things, the geographical availability of educational programmes and the development of special areas of initiative, which requires a variety of management tools.

The interplay between various management tools and financing sources, including, in particular, the relationship between activity-level managed and framework managed allocations has, at the same time, significant importance for the activity-level dependence and budget security of the institutions.

## The taximeter system

Taximeter management basically

entails that within the state's total financial framework for educational purposes, which is determined by a range of overall political expense priorities, activity-level dependent appropriations are distributed to the individual educational institutions based on:

- objective goals for activity levels
- and
- politically determined taximeter rates per activity-level units.

The appropriations are provided as block grants, which the institu-

tions are free to use as they see fit within the frameworks of the applicable appropriation preconditions and rules of disposal and in accordance with the objectives that have been determined for the individual educational programmes and institutions.

Both the taximeter and the block grant principles are grounded in the legislation regarding institutions, which similarly establishes the fact that state grants are to be provided in accordance with the taximeter rates that are determined in the annual Appropriations Acts.

The coupling of activity levels and politically determined taximeter rates involves, therefore, at its core that institutions have the assurance that an increasing level of activity in existing education programmes will be financed

according to the taximeter rate. In a situation of stable activity levels the institutions (and the state), all else being equal, will therefore have a reasonable degree of budget security.

Taximeter management has been developed according to a range of overriding considerations:

Firstly, the intention was to institute a system of financial management that was, to a greater degree, oriented towards results and incentives. With the taximeter system, the size of the grant is therefore linked with the direct results of the institution, measured in terms of the annual number of fulltime students or student fulltime equivalents. The institutions thereby also have an incentive to adjust the capacity to fit the demand and to continually look for ways to economise and become

more efficient.

Secondly, the intention has been to ensure that funds are efficiently transferred from educational programmes with decreasing amounts of activity to programmes that are experiencing growth, partly to support free educational selection and to provide institutions allocation security through open admissions or open access. Activity-level dependence entails that this transfer happens “automatically,” without elements of negotiation or administrative redistributions.

Thirdly, the direct productivity management through the taximeter rates should prevent activity level fluctuations from leading to expense management standard declines and increased unit expenses in situations of falling activity levels.

## *Characteristics of the taximeter system*

### **Demand management**

The money follows the user and creates incentives for user-friendly behaviour. Financing of increased educational activity levels is hereby ensured.

Flexibility in terms of institutional structure (mergers and split ups).

### **Productivity management**

No inadvertent improvements or worsening of standards as a result of demography and changes in application patterns.

### **Politically determined taximeter rates through the Appropriations Act**

The determination of taximeter rates is independent of the individual institution's expenses. Limited opportunity for pressure from interested parties (institutions, organisations, local/regional forces).

No negotiations or administrative redistribution.

Transparency across educational programmes and educational fields.

Activity-level dependency and numbers principles Budget security when the level of activity is stable, both centralised and decentralised.

Staggering the timing of the grant foundation increases budget security.

Numbers principles are result oriented.

The activity-level dependency can be reduced, for example, through basic grants, research and development funds, etc.

The development of the taximeter system has taken place with consideration for the fact that the institutional area of the Ministry of Education is extremely broad, including both very large and organisationally complex institutions that offer a wide range of educational choices as well as smaller institutions often offering very few programmes.

The flexibility within the framework of the taximeter system is particularly tied to the rate structure and numbers principles, while the flexibility in the allocation distribution is generally achieved through the use of activity-level independent grants.

A premise of the system is that, already at the beginning of the year the institutions are aware of the financial foundation for the coming year. At the same time, this means that the possibility exists for taking particular issues into consideration during the allocation distribution process, as there is no possibility for individual negotiations between specific institutions and the Ministry of Education.

However, there are situations and conditions that need to be taken into account financially, which occurs outside of the framework of the taximeter system in the form of basic grants, research and development funds, etc. For example, small institutions are given special attention through a relatively larger activity-level independent basic grant.

### **The rate system**

The rate system that is applied at medium-cycle higher education institutions and is based on three basic rates:

The teaching taximeter, which is designated to cover direct teaching-related expenses such as salaries, teaching equipment and materials.

The building and maintenance taximeter, which is a grant designated for capital costs, including building rental, interest and payments on mortgage debt, and expenses related to the maintenance of the buildings.

The collective expenses taximeter, which is designed to cover types of expenses that cannot appropriately be linked to individual educational programmes, such as administration and management costs, running costs and supplies.

There are, however, certain differences in what the taximeters are designated to cover in the individual institutional areas.

The rates are a result of political prioritisation in the sense that they are determined with the adoption of the annual Appropriations Acts, and the determination of the rates is thereby independent of the expenses and overhead conditions related to the individual institutions. Continuous or systematic imbalances between the rates and the expenditures can, however, lead to a regulation of the rates.

The types of rates and the number of rates fundamentally reflect a choice between a rough-meshed or a fine-meshed rate structure. The rate structure must be adequately fine-meshed such that the institutions are guaranteed fair coverage of their expenses, but, on the other hand, the number of rates ought to be limited in order to prevent the taximeter system from becoming ambiguous or unclear

The majority of the educational programmes are, therefore, distributed and placed in rate groups with common rates, which makes it, among other things, possible to compare the different programmes' financial situations. The placement in these groupings should, in principle, be able to be justified on actual and fundamental differences in the demands placed on the programmes and in the teaching

and organisational formations.

### **Numbers principles**

Within the framework of the taximeter system there are a range of area-specific adjustments based on the particular conditions of specific institutions and educational areas.

One example of this is the use of differentiated numbers principles, i.e., in what way the activity levels are related to resource allocation. Here a distinction is primarily made between the method used within the higher education system, where it is the level of completed activity that applies (STÅ), while with the post-compulsory education programmes, the foundation is primarily based on the number of students that begin an education and are continuing the programme on specific days designated for counting the students (full time equivalent students).

The background for this distinction is that the higher education programmes are typically characterised by longer subjects, lasting one to two semesters, where the number system supports the incentive of the institutions towards progression by the number of students being a source of financing when a subject is passed/ approved.

At the post-compulsory level the course of education (school periods) is generally shorter, where access to the next school period is conditional on completion of the previous course. A strict system of counting promotes the institutions' thinking in terms of efficiency and reduces the risk of arbitrary deviations in the financial foundation of the institutions as a consequence of, for example, a high target-group defined dropout rate.

### **Supplemental financial management tools**

In addition to the taximeter system, a number of possibilities exist for supplementing the activity-

level dependent taximeter grants with activity-independent grants, which, seen as a whole, contribute to creating the necessary flexibility in allocation distribution in relation to various needs.

Firstly, the allocation system must be able to support the regional distribution of educational opportunities and the existence of institutions that only offer a few programmes which are especially vulnerable to activity-level variation. However, the taximeter does not allow for the possibility of taking such instances into consideration in the allocation distribution process, and therefore a basic grant programme has been established that makes particular financial allowances for small institutions.

Secondly, a need can arise to promote specific educational political objectives within a limited time horizon that cannot be met through the taximeter system. Therefore, a number of grants are given which are not activity-level dependent, but earmarked for special purposes. These could take the form of, among other things, pool allocations and agreement-based allocation models.

#### **Basic grants**

In all areas, the taximeter system is combined with a basic grant designed to finance the basic expenses of the institution. At present there are two different basic grant models:

An activity-level independent basic grant, which is budgeted as a unit grant.

An activity-dependent basic grant, which is intended to provide support for the institutional structure.

The basic grant, particularly in the activity-level independent form, causes a redistribution to take place to the benefit of smaller institutions as compensation for their relatively higher unit costs. The grant can therefore have a relatively large financial importance

for these institutions and assist in ensuring their continued activities. The basic grants thus also have a regional, political dimension because many smaller institutions are situated in geographical outlying areas, and the basic grant is thus a flexible way of supporting the regional spread of educational opportunities.

#### **Funds for needy institutions**

In the relevant legislation there is a legal basis for awarding loans or grants to self-governing institutions that are in a particularly difficult situation and funding for such situations is provided for in the annual Appropriations Acts.

The primary rule is that Ministry of Education provides aid in the form of interest earning loans that are to be repaid in instalments over a period of no longer than five years to institutions that are experiencing acute liquidity difficulties. Providing these loans is conditional on the institution following the Ministry's requirements for restructuring activities with the aim of re-establishing a sound financial foundation. The institution is placed under strict economic supervision and must normally send quarterly reports on development to the Ministry.

#### **Mergers as a management tool**

A select few educational institutions are so small that, according to the Ministry of Education, they will have a difficult time maintaining a sustainable financial situation.

These institutions usually only offer one type of educational programme and are, therefore, vulnerable to even the slightest deviation in the number of students. In such situations, the Ministry of Education can recommend that these institutions look for possibilities for merging with another and financially more sustainable institution. In certain instances the Ministry has even made such a merger with a better-grounded

institution a requirement of providing funds for needy institutions.

The Ministry follows up on making sure that the institution realises the financial and administrative perspectives that were the basis of Ministerial approval of the merger.

#### **Non-activity level dependent grants**

Apart from the basic grants, a number of objective-defined, or "earmarked" grants are also provided such as, for example, multi-year agreement models and pool allocations in the form of, among other things, research and development funds.

These types of grants reflect the fact that the taximeter system primarily supports existing educational programmes. Therefore, a number of funding models have been developed to supplement the taximeter system. These models are designed to provide support for the quality development of the programmes and to take into consideration the need to be able to promote politically prioritised initiative areas.

The multi-year agreement concept generally entails the institutions being allocated grants based on objective criteria in return for meeting requirements regarding quality development within a range of politically defined areas of initiative. It is, at the same time, a requirement that the institutions document the results achieved and the use of the funds. Multi-year agreements allow for the possibility of promoting qualitative areas of initiative and making the results of development work visible. On the other hand, the model also bears the risk of over management because the concept involves the extremely detailed administration of a relatively small amount of funds.

Research and development funds (pool allocations) are similarly used to promote specific, politically prioritised objectives that

lie outside the normal aims of the institutions and cannot be accommodated within the framework of the taximeter system. These include research and development work in connection with, among other things, the development of new education programmes.

### **Income-generating activities**

The legislation concerning institutions allows for the possibility of the institutions performing income-generating activities in open competition with private sector enterprises. The intention is partly to ensure flexible and efficient utilisation of capacities and resources and partly to take advantage of the academic synergy-effects and opportunities for competency development. The surplus from these income-generating activities can be used for financing new needs, for example in relation to the development of new educational programmes.

The institutions are subject to conditions for carrying out income-generating activities, which means that:

The income-generating activities must be a natural extension of the regular activities of the institution.

The institution must be able to separate the production of goods and services that are intended to generate income from the institution's other tasks.

The surplus or loss in one financial year can be carried over to a later financial year.

The accumulative result of the income-generating activities may not be negative for four years in a row.

Apart from this, there are rules governing the pricing of goods

and services that are provided as income-generating activities.

As a general rule, the pricing must be such that it does not compromise the competitiveness of private or public competitors and such that the long-term average costs are covered. In accordance with the legislation applicable to institutions, it is made additionally clear that institutions that practice income-generating activities must follow good marketing practices and must not impose unfair price competition on others.

The Ministry of Education is responsible for supervising institutions with income-generating activities.