

**Assessing the Revenue Framework  
and Multi-year Planning**

**in**

***Ontario: A Leader in Learning (Rae Report)***

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## Table of Contents

<b>I. Introduction</b>	p. 2
<b>II. Background</b>	p. 4
<b>A. University Funding</b>	p. 4
i. Taking Stock – Assessing the Current Financial Situation	
ii. Formula Financing	
iii. In the beginning...	
iv. Corridor Funding	
v. Constraint, Contraction and the Common Sense Revolution	
vi. The Federal Presence – ‘mixed reviews’	
vii. Setting the context for the Rae Review	
<b>B. Accountability</b>	p.16
<b>III. Ontario: A Leader in Learning</b>	p.18
<b>A. Overview of the Rae Report</b>	p.18
<b>B. Assessing the Rae Approach</b>	p.22
i. Recommended Funding Levels	
ii. Access	
iii. Excellence and Demonstrable Quality in Teaching and Research	
iv. Institutional Autonomy within a Public System	
v. Mutual responsibility of government, institutions and students	
vi. Reflections on quality and differentiation	
<b>IV. Summing Up</b>	p.33
<b>References</b>	

## I. Introduction

*Ontario: A Leader in Learning* (Rae Report) is the latest of a long series of reports about various aspects of post-secondary education in Ontario. Every several years, it seems, government is destined to turn to a Commission to help sort out the challenges of the day in the post-secondary sector. What are those challenges? They usually centre on meeting enrolment demand (accessibility), the level of tuition and aspects of student assistance (affordability), and the need to improve the learning environment (quality). They also seem to lead to calls for increased levels of funding and greater accountability. The government of the day may also have a few specific issues – college/university collaboration, whether to encourage private institutions or not, what to do to correct decreasing demand in certain parts of the province – that happen to be on the Minister or Premier’s desk at the time the Commission is established.

Each of the many reports has had an impact; some more than others. The impact – whether it is new policies, more funding, new funding mechanisms, new directions, shifts in direction, or new reporting requirements – has contributed to the on-going, seemingly never-ending change in post-secondary education in Ontario. At one level that change can, and should, be seen as sweeping. Over the past 40 years or so higher education in Ontario has become “mass education”.<sup>1</sup> The college system is now a vital part of the post-secondary landscape and an integral part of many communities across the province. Universities have grown in number, size and importance and in the process moved “from private domain to public utility”.<sup>2</sup>

As a public utility government has taken considerable interest in regulating universities (and colleges) and using the funding mechanism(s) and funding levels as the instruments of government policy – with special emphasis on ensuring accessibility and controlling the price to students and their families (affordability). For most of the past 40 years or so the price of education has been regulated – both tuition and the government subsidy. In more recent times, government provided limited de-regulation of tuition but within a relatively short period of time ‘re-regulated’. With the exception of very few programs (e.g. Executive MBA) tuition is still subject to government regulation via a two year freeze (2004-05 and 2005-06) implemented by the Liberal government. The other part of price is the level of government subsidy, which in *real terms* on a *per student* basis has been on a downward trend since the 1970’s. Government’s conundrum has been how to fund a mass education system that ensures accessibility is affordable, (to both government and students) and offers an acceptable level of quality.

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<sup>1</sup> M. Trow, "Problems in the Transition from Elite to Mass Higher Education" in OECD, *Policies for Higher Education*, Paris: OECD, 1974) suggests the transition from elite to mass education occurs at about 15 percent of the relevant age group. As reported in D. Bruce Johnstone, *The Financing and Management of Higher Education: A Status Report on Worldwide Reforms*, World Bank, 1998.

<sup>2</sup> J.A. Corry, *Farewell the Ivory Tower*, McGill-Queen’s Press, Montreal, 1970, p. 101, quoted in G.A. Jones, *Complex Intersections: Ontario Universities and Governments*, in F. Iacobucci and C. Tuohy, *Taking Public Universities Seriously*, University of Toronto Press, Toronto, 2005 p. 174

In the early 1960s Premier John Robarts stated that it was the government's intention to ensure that there was room "... within our universities for all students who wish to proceed to some form of higher education."<sup>3</sup> Governments of all political stripes have grappled with funding that commitment<sup>4</sup> ever since and used a variety of approaches that have ultimately resulted in an increased proportion of the cost being borne by students and their families, continuing concerns about quality, and constant pressure for more government funding. On the way the university sector has been wracked by shifts in provincial funding policy and a planning environment that in more recent times could best be characterized as 'chaotic'.

The nature of the federal presence in the postsecondary sector changed markedly as well. Federal-provincial fiscal arrangements evolved from 50-50 cost-sharing to unconditional grants that had little to do with the needs of the post-secondary sector. Changes in federal transfer arrangements have created fiscal challenges for the province that have affected the level of operating support at the institutional level. In the past decade, calls for more federal funding to meet post-secondary demands spawned a set of direct investment programs, such as the Canada Foundation for Innovation (CFI), and the Canada Research Chairs (CRC's), aimed specifically at the institutions, but carrying conditions that required provincial contributions. At the same time, the federal government increased payments to individuals through various tax credits, changes in the Canada Student Loan Program, new scholarship programs and the establishment of the Canada Millennium Foundation. The increased federal presence is distinctly different than it was, created its own set of challenges, and, in more recent years, added to the general sense of turmoil that has characterized the postsecondary sector.

One of the most interesting aspects of the Rae Report is that Mr. Rae has seen the damage caused by government actions (or inaction). In the case of the provincial government his "fix" is to establish a legislative framework to enshrine key principles and lessen the vagaries and vicissitudes of government legislators and bureaucrats. That fix, coupled with a proposed new Revenue Framework – that, among other things recognizes the important role of the federal government – are core components of *Ontario: A Leader in Learning*. His response to the changes in the federal presence is sharp and clear: restore the real value of the Canada Social Transfer. Rae's report is impressive, structured around three overarching goals, seven key strategies, and twenty-eight recommendations involving \$2.1 billion in *new* investment over the next three years, and the establishment of a legislative framework that "sets out the parameters of the student assistance program, the frameworks for revenue – including tuition – and accountability, and mandated public reporting of performance and results." (p.29)

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<sup>3</sup> Statement to the Legislature of Ontario, by Premier John Robarts, March 21, 1963 as quoted in D. Cameron and D.M. Royce, "*Prologue to Change: An Abbreviated History of Public Policy and Postsecondary Education in Ontario*", *Appendix B: Background Paper*, in Report of the Advisory Panel on the Future Directions for Postsecondary Education, December 1996.

<sup>4</sup> Other provinces have tended to opt for an access policy that sets limits on the number of available university spaces.

Whether some or all of the recommendations will be partially or wholly implemented is in the hands of the McGuinty government. The focus of this paper is twofold: to review the implications of the Rae Report's proposed Revenue Framework; and to assess the proposed accountability mechanisms. In both cases emphasis will be placed on the implications for universities. To explore both of these topics in some depth, it is important to have an understanding of university funding in Ontario and the existing accountability practices.

## **II. Background**

### **A. University Funding**

#### **i. Taking Stock – Assessing the Current Financial Situation**

According to the findings in the Rae Report the funding 'gap' between Ontario universities and other provinces is estimated to be about \$380 million for 2004-05. Relative to the United States Rae estimates the gap ranges from about \$900 million to \$1.8 billion and settles on a figure of \$1.4 billion.

Since the mid-80s, university funding in Ontario has been characterized by major shifts in the sources of funding: provincial operating grants represented about 75% of operating funding in 1987 versus about 50% in more recent times. Fees represented about 20% of operating income in 1987 and now constitute about 45% of operating income.

Over the past decade, tuition increases have been de-coupled from the provincial funding formula. That change in the funding formula, coupled with increased operating grants for additional enrolments, means that there is currently a direct link between the income a student generates (tuition and grant) and income an institution receives; the existing funding mechanisms are enrolment sensitive.

Pressure points have arisen because the total level of funding has not kept pace with cost increases and enrolment growth. Accessibility increases have occurred at the expense of quality considerations thus leading to increased class sizes, less student to faculty interaction and fewer opportunities for real student engagement.

Pressure points have also arisen because, since the early 1990s, government financing has been characterized by changing funding policies and unexpected changes in funding mechanisms. Together, those factors – cost pressures, enrolment growth, decreases in grant funding per student in real terms, and changes in funding mechanisms – have contributed to a very unpredictable and straitened financial environment. To understand the full import of Rae's recommendations it is necessary to have some understanding of the funding mechanisms that have characterized provincial funding allocations.

#### **ii. Formula Financing**

Ontario was one of the first jurisdictions in Canada to adopt formula financing in the university sector and many of the basic concepts that underpinned that development are still operative today. From the outset it is critically important to distinguish the role of formula financing in the *allocation or distribution of funding* versus its role in *determining the level of funding*. Formula funding models tend to be focused on the

distribution or allocation of specified levels of government funding. While such a formula may have some links to actual costs and hence be seen, by some, as having a major impact on the overall level of resources that should be provided to a specific entity (schools, universities, colleges, hospitals, colleges etc.), the fact is government sets the actual level of funding based on a host of factors including cost pressures, competing priorities, government objectives, the state of the economy, and the state of government finances. The formula is simply the allocation device but the way it is designed can have steering effects on the recipients and thus it can become an instrument of government policy.

Formula funding models tend to be designed with specific principles in mind as follows:

**Equity** – the formula strives to achieve equitable allocations based on common quantifiable factors (i.e. enrolment, classroom space per student);

**Predictability** – the formula is designed to allow for a high degree of predictability in overall funding;

**Stability** – the formula tends to be designed to provide smooth transitions to changes in funding distribution and allocation;

**Accountability** – through the use of simple inputs (i.e. enrolment, space per student, space per faculty) formula funding provides an easy to understand part of the accountability framework; (Of course that should be augmented by outcome reports, public financial reporting, and the easy availability of measures that can be used to determine if the funds are achieving intended objectives.)

**Simplicity / Transparency** – the formula tends to be easy to explain and understand and the factors that trigger changes in allocations have clear rationale;

**Effectiveness** – the formula may be designed to achieve government objectives through the use of factors that influence specific parts of the allocation (i.e. enrolment); and

**Efficiency** – through the design of the formula, efforts are made to ensure that incentives are in place to promote efficiencies and/or disincentives are in place to prevent inefficient practices.

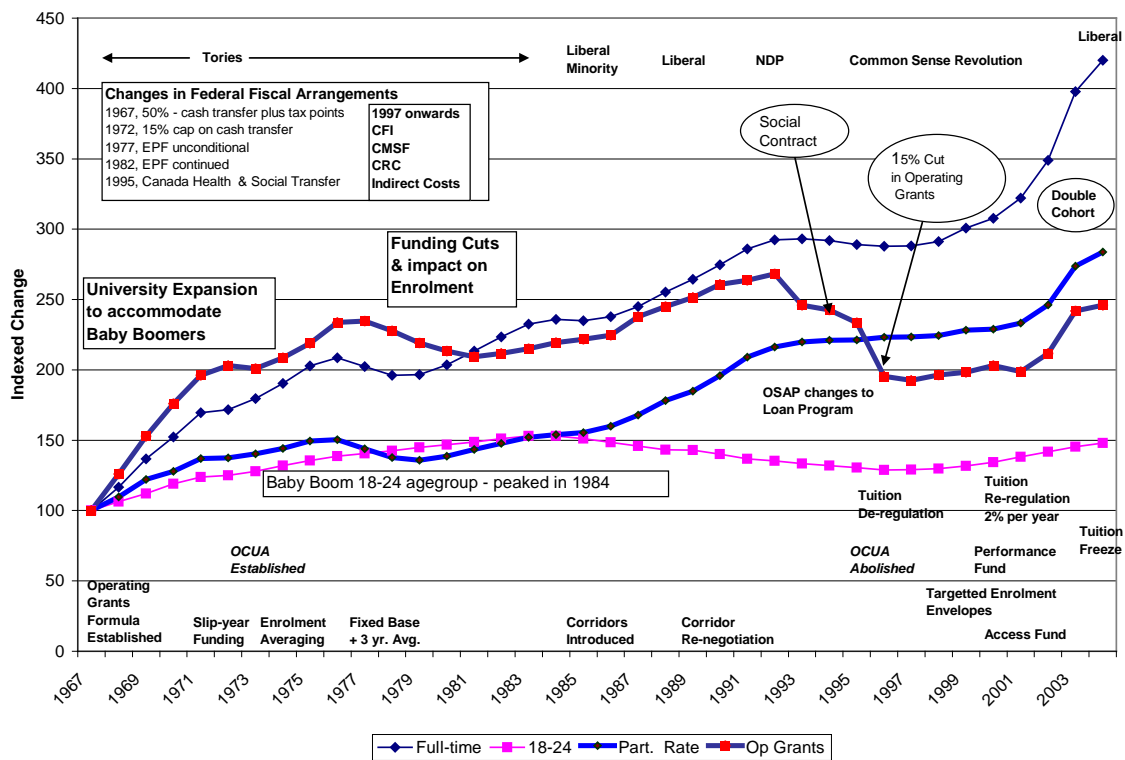
In effect, formula financing attempts to provide a *level playing field* and well-defined *rules of the game* so that the affected entity (schools, colleges, universities, hospitals, municipalities) can plan in an orderly fashion and seek to accomplish its objectives (and government objectives) in an effective and efficient manner.

Usually the formula approach is centred around a basic grant or core grant that is based on a common set of input factors and some notion of average costs. Those characteristics assume a certain degree of homogeneity of institutional mission. Special Grants are then used to address specific issues that may affect the recipients differentially. Those Special Grants will often be allocated based on a formula mechanism as well.

The history of formula financing in Ontario has been chronicled at different times in a number of places (Council of Ontario Universities 2004, Darling et al. 1989, Leslie 1980) thus what follows is a brief overview intended to provide sufficient context for the discussion of the Rae proposals. To help illustrate the major changes in the funding formula (the allocative mechanism) and the factors influencing those changes, Figure 1

attempts to provide a composite overview.<sup>5</sup> A careful review of Figure 1 provides a glimpse of the major changes that have occurred over the past forty years, spanning various governments. Enrolment increased markedly over the period as did participation rates, even in the face of decreases in the 18-24 year old population. There are a few periods where enrolment actually decreased (1976-1979) or remained relatively flat (1984-1986 and 1993-1998). Interestingly enough those downturns or steady state periods matched downturns in provincial funding (often influenced by changes in federal transfer payments) or formula changes that dampened the relationship between enrolment change and provincial funding. As long as the relationship between enrolment increases and funding is reasonably strong the evidence suggests the universities will increase enrolment and meet the demand (Snowdon, 2004).

Figure 1: Funding, enrolment and participation rates – Ontario 1967-2004



What is masked in Figure 1 are the machinations involved in a) trying to ensure student demand is legitimate and not just induced by the institutions in an attempt to garner more funds and b) trying to get the universities to take more students (access) at the lowest cost to government. Accessibility and affordability have been the preoccupation of government, easy to define and politically important. It is not surprising then, that the basic funding formula in Ontario focused on student enrolment and incorporated tuition into the equation. The evolution of formula financing and the history of government funding in the university sector are worthy of a brief review because both elements play major roles in setting the context for the Rae Review.

<sup>5</sup> Figure 1 is an updated and augmented version of a graph in the Council of Ontario Universities, Committee on Enrolment, Statistics, Projections and Analysis, *Enrolment Review: Report of the Committee on Enrolment Statistics, Projections and Analysis*, September 2001.

### iii. In the beginning...

Prior to 1967<sup>6</sup> individual universities went ‘cap in hand’ to the Minister of the day and made their specific request for government support. Institutional grants were essentially a series of private bilateral negotiations between representatives of an institution and representatives of the Ministry of University Affairs. This approach had its shortcomings, as noted in a Council of Ontario Universities’ paper on the subject:

the amount of effort required by both institutions and government, the latter of course having to repeat the effort for each institution; the Ministry’s review of a detailed institutional budget submission was regarded by institutions as an infringement of autonomy; open public accountability was not consistent with private negotiations; there was no obvious or easy way in which to demonstrate equity in budget allocations among institutions, even assuming such equity existed; and, since the players and political imperatives could change from year to year, there was little or no predictability of available resources on which to base long range or even short range planning.<sup>7</sup>

The expansion of the Ontario university system in the latter part of the 1960s necessarily led to a major reform in university financing; the adoption of an enrolment based funding formula that considered both provincial grants and tuition in the equation. Based on concepts articulated by the Bladen Commission,<sup>8</sup> a funding formula was developed by assigning funding weights (Basic Income Units) for each program based on estimates of program cost.<sup>9</sup> Each institution’s enrolment was multiplied by the program weights and the resultant total was known as an institution’s Basic Income Units or BIUs.

The actual grant *per* university was then determined by multiplying the *number* of BIUs by the *value* of the BIU. The value of the BIU included both the provincial grant and a government determined tuition called the ‘standard fee’. While an institution could charge a higher tuition, the government simply deducted the higher tuition from the provincial grant. Through this mechanism, government effectively controlled the two major sources of revenue. In effect, students in the same program were funded at exactly the same level across all the institutions in the province. A history student at Trent attracted the same amount of grant and tuition funding as a history student at Windsor, or Queen’s or Waterloo. The adoption of this approach was a clear indication that the funding mechanism was not a tool for differentiation; differentiation would occur through system-wide planning and institutional role differentiation.

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<sup>6</sup> Starting in 1967 federal-provincial arrangements changed so that provinces would receive federal funding to cover 50% of the provincial post-secondary expenditures.

<sup>7</sup> Council of Ontario Universities, *A History of the Funding Formula in Ontario, August 2004*. pp.1-2

<sup>8</sup> Report of the Commission to the Association of Universities and Colleges of Canada, *Financing Higher Education in Canada, Toronto*, University of Toronto Press, 1965.

<sup>9</sup> From their inception, the BIU weights were meant to be a rough ‘proxy’ for differences in average program cost and were derived, principally, from looking at the relationship of funding to program enrolments at several of the established universities at the time. The average program cost approach, however, did not adequately meet the needs of smaller institutions nor those with differentiated missions and quickly led to a requirement for additional funding. Initially called ‘supplementary grants’, those allocations became institutionalized as ‘mission related’ grants. For detail about supplementary grants and BIU weights please see Universities Branch, MTCU, *The Ontario Operating Funds Distribution Manual, 2003-04*, December 2004.



In general, the universities were satisfied with the formula. The overall level of funding was sufficient to meet budgetary requirements, the formula was simple, tied directly to student enrolment and, more or less, recognized differences in program costs.<sup>10</sup> Government, however, very quickly saw the need for modification. The original formula was open-ended – that is every student generated a provincial grant (and tuition). The fact that the annual cost to the province was not known until all students had enrolled caused some concern with provincial officials.<sup>11</sup> Accordingly in the early 1970s the province began funding enrolment on a ‘slip-year’ basis; that is with a one year lag. Such an adjustment improved funding predictability for both government and universities. However within a very short time the concept of slip-year was replaced with averaging enrolments over a three year period (1976) and then government introduced the concept of a fixed enrolment base (a specified time period) and a moving average with discounts applied to enrolment changes (1978). In effect, government – with the advice of the recently established Ontario Council on University Affairs (OCUA) – was formally acknowledging the concept of fixed and marginal costs. With the impact of the ‘baby boom’ coming to an end, universities were somewhat more amenable to accepting changes in the formula that would provide a buffer against enrolment declines. For a few years enrolment actually decreased and the funding arrangement seemed even more attractive. Government, having had another adjustment to the federal transfer arrangements was looking for ways to contain the increase in government spending. Little did either level of government or the universities expect that within a few short years participation rates would increase and more than compensate for the projected decrease in the 18-24 year old population. (See Figure 1)

#### **iv. Corridor Funding**

Following the Commission on the Future Development of the Universities of Ontario (Bovey Commission) the link between *current* enrolments and provincial grants was lessened further by the adoption of enrolment funding ‘corridors’ in the mid-1980’s. Essentially, as long as a university was within + or – 3% of the corridor mid-point (defined by the number of BIUs), the operating grant would remain intact. If enrolment dropped below the specified level by 3% or more, the grant would be reduced. There was also provision to increase the funding for institutions that increased their enrolment by more than 3% but, in fact, those provisions were never implemented by government, thus contributing to later claims regarding “unfunded BIUs”. The work of the Bovey Commission also led to the introduction of additional targeted envelopes such as the Research Overheads/Infrastructure Envelope (ROIE) that explicitly recognized federal granting agency funding in the allocation formula.

A major expansion of the university system in the late 1980s – fuelled by increased participation rates and secondary school reform – led to a renegotiation of the corridor mid-points for each university. Government provided additional funding for the increased enrolment and also set specific enrolment targets in a select set of program

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<sup>10</sup> While there was general agreement with the ‘weights’ that had been assigned to programs, there were a number of ‘weight’ changes that occurred in the first few years after the introduction of the formula.

<sup>11</sup> At the same time, the federal government introduced a ‘cap’ on the annual increase in the cash transfer.

areas. At the same time government provided separate funding for Faculty Renewal and other special initiatives. As the universities headed into the 1990s there was general satisfaction with the funding *mechanism* – the corridor system was a demonstrated success and the targeted envelopes provided government with sufficient flexibility to announce special initiatives and be seen to address specific concerns. Government grants peaked in the early 1990s. From that point onwards the overall funding environment changed dramatically.<sup>12</sup>

#### **v. Constraint, Contraction and the Common Sense Revolution**

The New Democratic Party (NDP) time frame is best remembered for government expenditure restraint and the Social Contract. In light of a provincial economic slowdown various measures were taken to reduce the rate of increase in government program expenditures. Student aid was reformed with loans replacing grants. Additional Qualifications Courses for teachers were deemed ineligible for government funding. Annual increases in operating grants were replaced with absolute decreases. Under the Social Contract “Rae days” became a form of currency. Government intervention on funding matters and governance was the order of the day. By the time the NDP left office formula financing was still in place but it was clear the government could (and would) change the rules of the game – frequently – sometimes with consultation and sometimes without. It was equally clear that the province’s fiscal position was tenuous and would be a major pre-occupation of the Common Sense Revolution led by Mike Harris.

By the mid-90’s the Harris Tories had replaced the Rae government and the first order of business was to rein in the mushrooming provincial deficit and deal with impending cuts in federal transfer payments. In the post-secondary sector that translated into a major (15%) cut in the level of provincial operating grants and provision to allow institutions the opportunity to recoup some of the loss by increasing tuition and keeping the additional tuition income.<sup>13</sup> The Tory philosophy was to provide the ‘tools’ for the public sector to become more market-oriented<sup>14</sup> and begin the process of launching major reform. In the case of universities that meant several things: letting universities increase tuition (in a ‘regulated’ fashion); shifting the student aid burden associated with tuition hikes to the universities, removing international students from the funding formula; and launching the Advisory Panel on Future Directions for Postsecondary Education (Smith Panel) in the summer of 1996.

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<sup>12</sup> For a glimpse into the magnitude of the change and its impact on government policy, see Bob Rae, *From Protest to Power*, Penguin Books, 1997.

<sup>13</sup> In fact there had been very small moves in that direction by the previous governments. While fees were an integral part of the total funding formula, as early as 1980/81 the Tory government had allowed institutions the leeway of charging and keeping 10% more than the stated ‘regulated’ fee. After a review of ancillary fees in the mid-1980’s the Liberal government increased this so-called ‘discretionary’ portion of the fee by an additional 3 percentage points. That allowable increase was meant to compensate for restrictions on the amount of “ancillary fee” that an institution could charge. However, both initiatives provided precedents for a shift in government policy – that is the sum of grant and tuition funding was no longer intended to be equal across programs and institutions.

<sup>14</sup> J. Ibbitson, *Promised Land: Inside the Mike Harris Revolution*, Prentice-Hall, Scarborough 1997 p.132

Later that year the Smith Panel filed its report *Excellence, Accessibility, Responsibility*, and re-affirmed the merits of the enrolment corridor funding system and also recommended that tuition for Canadian students should be further ‘de-regulated’. The Minister of the day – John Snobelen – added fuel to the general state of disquiet by his infamous quote about the need to “invent a crisis”<sup>15</sup>. Even though it was not directed at the university sector, the Minister’s sentiments reinforced the view that further reform was going to be the order of the day. Moreover, with the demise of the Ontario Council on University Affairs – a casualty of budget cuts and institutional antipathy – the way was left open for government to become directly active in the policy field. Downsizing, restructuring, tuition increases, a government Advisory Panel, changes in funding policy and a Minister with little time for universities, combined to create a tumultuous situation on campuses across the province. While universities had been silent on the abolition of the Ontario Council on University Affairs, the absence of a ‘buffer body’ was noticeable and *Excellence, Accessibility, Responsibility* spoke to the need for a postsecondary advisory body (recommendation 13) – a recommendation the government ignored.

Given the pressure on institutional finances since the early 90s, constant calls for greater efficiency and downsizing, and a general sense that government had little time for universities, the university sector felt somewhat beleaguered. Staff and faculty railed against cut-backs and salary restraint. Students railed against tuition hikes (and so did faculty and staff in some institutions). Job losses created undue tension on campuses across the province. Against that background it should not be surprising that the mid-1990s also witnessed the emergence of more faculty unions and union drives on more campuses.<sup>16</sup>

By 1998, government had adopted parts of specific recommendations from the Smith Panel and announced further de-regulation of tuition<sup>17</sup> in certain programs although the government used the term ‘additional cost-recovery’. De-regulation was consistent with the Tory philosophy although the backlash from students was more than anticipated. The university community – still reeling from the cuts in provincial grants and coping internally with the aftermath – was thrown into an environment that could be best characterized as chaotic. The de-regulation of tuition created an enormous amount of controversy on some campuses. Yet, in the absence of any additional grant monies to meet normal cost increases, the universities had to rely on major tuition fee hikes to help meet budgetary needs.

The government of the day was determined to ensure that any new provincial funding would be targeted for specific purposes rather than simply used to increase the value of

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<sup>15</sup> Ibid., p.222

<sup>16</sup> Queen’s (1996), Western (1997) and a unionization vote at Waterloo in the same period.

<sup>17</sup> Prior to 1998 all programs that were eligible for government funding were also subject to government tuition policy. Generally, tuition was very similar from one program to another. Each year government would announce the level of allowable tuition increase. In 1996, 1997 and 1998 the government allowed tuition in all programs to increase, on average, by 10% each year. However, by allowing a maximum increase of 20% in any one program, it became possible to begin introducing tuition differentials by program. The de-regulation of certain professional programs and graduate programs in 1998, extended the concept of differential tuition and there are now major differences in tuition by program.

the BIU (i.e. inflation). One way to control cost increases was to squeeze economies and efficiencies out of the system by ignoring inflation. That, in turn, resulted in improved productivity – a supposed clear ‘win-win’ – a fallacy finally unmasked in Rae’s report. (p.95) Meanwhile, the Tories onus on the economy quickly led to direct intervention in the postsecondary sector.

In an era of the “dot.com revolution” anticipated shortages of “hi-tech” personnel led to representations by industry for greater investment in certain areas. Led by Nortel’s John Roth, the industry called for a major increase in the number of computing and electrical engineering graduates – necessary to fuel the research labs and support the hi-tech industries. This investment was deemed to be pivotal to Ontario’s future and the government responded with its Access to Opportunities Program (ATOP), setting a goal of doubling the ‘pipeline’ of computing and electrical engineering graduates; several years and a dot.com implosion later, the ironies are obvious.

The government also added other targeted envelopes for specific enrolment increases in professions in the Broader Public Sector (BPS) (teacher education and medicine). For a government committed to market principles (or so it seemed) its foray into centralized human resource planning was a major shift in direction. While one might rationalize the BPS initiatives, since government ultimately had to employ the vast majority of those graduates, the ATOP initiative was central planning at its colossal worst; rather than use an existing well understood mechanism to implement the initiative (Strategic Corridor shifts in the Corridor parlance), government officials designed their own convoluted, complex arrangement that created enormous amounts of work and continue, to this day, to require separate reporting requirements. The rationale at the time was that the Strategic Corridor approach was too limiting; government wanted a mechanism to *shift* existing spaces into computing and engineering, rather than *add* new spaces on top of existing enrolments.

The 1998 Provincial Budget also saw the introduction of what was called the Fair Funding for Universities Grant (FFUG) that was, ostensibly, supposed to address funding inequities among the universities. In effect, over a three year period, all universities were to move towards the average provincial grant level of the University of Toronto. Of course, since some institutions were above the University of Toronto threshold a number of institutions, including Toronto, received no FFUG funding. Regardless of what the FFUG and ATOP were intended to do, the fact is both initiatives reflected the government’s increasing penchant for intervention and the use of what appeared to be arbitrary measures and processes with little (or no) consultation<sup>18</sup>. Moreover, while government could legitimately claim it was adding money to the universities, in fact the funds were distributed in a highly differentiated fashion, thus heightening tensions among the universities.

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<sup>18</sup> The corridor re-negotiation of 1989-90 had also identified specific enrolment priorities at the ‘system level’ and concerns were expressed about too much government intervention. The Tory intervention was seen as significantly ‘worse’ because it was regarded as pandering to the interests of big business, the overall funding situation was dire, and it was viewed as a harbinger of things to come.

After 1998 the emphasis shifted to preparing for the “double cohort” and the result was continuing chaos and uncertainty. The announcement of a major commitment for new capital expansion (SuperBuild) ended up tarnished by the absence of any reference to operating funding and an allocation process that was skewed towards the colleges despite the fact that the “double cohort” – by definition – would have a much greater impact on the university sector. The tuition de-regulation of 1998 was slowed considerably in 2000 by the imposition of a policy that limited increases in ‘regulated programs’ to 2% per year for five years – a cumulative total of 10% over the period.<sup>19</sup> Programs that had been deemed ‘cost-recoverable’ (e.g. Law, Medicine, Engineering, graduate programs) were exempt from the 2% limits. Nevertheless the sudden change in government policy added to the general turmoil of the period. After introducing Key Performance Indicators to provide more information to prospective university (and college) students, the government decided to tie a Performance Fund to the indicators. For the first time the government also acknowledged the general increase in enrolment levels (Accessibility Fund) but accompanied the provision of more funds with what were seen as punitive eligibility conditions.

The government also introduced changes in the post-secondary ‘market’, ostensibly, to allow more competition by introducing a process for more universities (public or private) to operate in the province and by introducing a process to allow the Colleges to begin offering Applied Degrees (Post-secondary Education Choice & Excellence Act 2000). Then, in a misguided attempt to meet the changing entry to practice requirements for Nursing students, the government announced that universities and colleges had to act together and offer joint degree programs. Within a very short time government was establishing yet another mechanism to accelerate the production of nurses. Attempts to get government to recognize the added costs associated with collaborative exercises, and the basic underfunding of existing Nursing programs, fell on deaf ears. With the ‘double cohort’ looming, universities were pressured to make the government initiatives work – endure some short-term pain to demonstrate a willingness to help solve government’s problems. The same result occurred in Medicine. As concerns about doctor shortages began to garner attention, government wanted the universities to expand Medical enrolments. The five universities with medical schools (McMaster, Ottawa, Queen’s, Toronto and Western) were prepared to expand enrolment but required additional funding beyond that provided through the existing funding formula. Government responded by threatening to change the formula without adding new funds. The universities buckled.

The announcement of a Task Force to look at efficiencies and effectiveness – the Investing in Students Task Force – was seen, by many, as the final ignominy. Together the preceding government actions, coupled with no provision for general inflation, simply left the university community disheartened and demoralized.<sup>20</sup> To be

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<sup>19</sup> Polling results indicated that the ‘double cohort’ was beginning to garner a bit of attention and specific concerns focused on accessibility (‘will there be room’) and affordability (tuition increases were drawing more negative press and student protests). The government’s change in direction aligned with the polls.

<sup>20</sup> The punitive nature of government announcements in 2000 were seen, by some, as payback for the Fall 1999 universities press release where J. Ibbitson, columnist for the Globe and Mail, suggested the universities were trying to ‘blackmail’ the Premier (Harris) into more funding. The Harris government took a dim view.

fair, the Investing in Students Task Force was needed to validate university and college claims about efficiency. Government was not willing to commit additional funding to the 'double cohort' until it was satisfied that universities and colleges were pursuing appropriate efficiencies. However, to the university community it was seen as more evidence of a government trying to duck its double cohort commitment. As it turned out, the Task Force's findings were proof positive that additional funding was required. However, once again, rather than rely on existing processes and mechanisms, the government introduced a new process called Enrolment Target Agreements (ETA) to ensure that universities and colleges would, in fact, take additional students if additional funding was made available. The distrust was palpable.

The change in government from Harris to Ernie Eves resulted in a much better working environment for the universities and an apparent genuine desire to address the looming double cohort. Under Eves additional capital funding was provided, the Accessibility Fund (renamed the Enrolment Expansion Fund by the Liberals) was augmented, and the first installment of a \$200 million Quality Fund was implemented.

As the short-lived Eves' era wound down formula financing was still in evidence, centred on the concept of enrolments but augmented with a number of targeted funds each with its own allocative mechanism. Nevertheless, the basic operating grant – the grant related directly to the corridor formula – constituted about 80% of provincial operating funding.

This brief history of provincial operating grant funding does not do justice to the many machinations associated with government funding over the period. But it helps to illustrate the extent of the changes in the funding mechanisms and funding processes that simply exacerbated the provincial funding picture. To the extent that planning and predictability are important prerequisites to the effective utilization of resources in support of public policy one can see the difficulty. The vagaries and vicissitudes of provincial funding policies, and the implementation of those policies, have not helped the situation.<sup>21</sup>

#### **vi. The Federal Presence – 'mixed reviews'**

The federal presence during this latter era also deserves comment. After essentially balancing the federal budget on the backs of the provinces, the federal government began re-investing directly into the post-secondary sector through a variety of funding vehicles beginning in 1997.

The Canadian Foundation for Innovation (CFI) provided major research infrastructure grants. The Canada Research Chairs (CRC) program was aimed at the recruitment and retention of faculty. Overhead on federal granting council funding focused on the

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<sup>21</sup> An illustration of the problems of government continually altering policies and directions is international students. In the mid-1990's government withdrew provincial funding for international students. Institutions were allowed, however, to charge tuition at 'cost-recoverable' levels and keep the revenue. Within a few years, institutions were told to place greater emphasis on 'double cohort' students and thus many reduced their international enrolment. More recently, universities (and colleges) are being urged to be more entrepreneurial and seek out international students.

‘indirect costs’ of federally sponsored research and increases in the federal granting council budgets were aimed at increasing support for basic research. Together those initiatives combined to provide significant sums of funding to the university sector.

At the personal level, new and enhanced tax credits for students helped ease the cost of attending university or college. The Canadian Millennium Scholarship Foundation was established to increase accessibility through direct bursary support. In 2002 the Pierre Elliot Trudeau foundation was established to provide funding support to doctoral students and support to faculty in specific areas. The next year the Canada Graduate Scholarship Program was announced with 4000 scholarships to be available by 2006.

In Ontario the federal programs incensed the Tories. After slashing transfer payments the federal government was seen as spending money that rightfully belonged to the provinces and, to rub salt into the wound, many of the federal programs came with conditions that required provincial contributions. The fact that some university presidents heaped praise on these federal initiatives did little to improve the overall working relationship during the Harris years. Provincial bureaucrats looked for ways to turn the federal monies to their own advantage. The Millennium Scholarship program was used to trim provincial student assistance expenditures and establish new provincial scholarships. The Indirect Costs program led some to believe that provincial officials saw little need to provide inflationary funds to universities. By 2002/03, as documented in the Rae Report (p.96) the federal contribution to the postsecondary sector had changed markedly: transfers to the province had dropped by almost 50% in real terms since 1992/93; transfers to individuals in the form of tax credits, research grants (to the universities), bursaries and student loans had increased markedly. The advent of the new scholarship awards announced in 2002 and 2003 will continue the shift in federal funding.

The federal programs had another major impact: differentiation. The decision to use ‘research’ as the focus of the federal investment in universities resulted in quite different allocation results than if the funds had flowed through the province and been distributed through the operating grants mechanism. Institutions with a research presence – as measured by their share of federal granting council funding – benefited markedly. Strength in research led to more strength in research with all of the associated costs and benefits. Between 1995 and 2004 a major transformation occurred; by virtue of federal funding initiatives involving billions of dollars a very small set of Canadian institutions emerged as the clear research leaders.<sup>22</sup>

### **vii. Setting the context for the Rae Review**

With the election of a Liberal government in late 2003, and a deteriorating fiscal situation, the stage was quickly set for another review. The new government found itself committed to the funding requirements of the double cohort and an election promise to freeze tuition and offset the loss of tuition income that had already been factored into institutional budgets. Budget 2004 announced the launch of the Rae Review.

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<sup>22</sup> In fact the allocation mechanism is bit more complicated than just shares of federal grants. Under the guise of ‘capacity building’ the actual allocation mechanisms for CRC’s and indirect costs have specific provisions to ensure smaller universities receive a share of the funding; it’s Canadian eh.

As the Rae Review started the existing funding arrangements included the basic operating grant allocated on the basis of the corridor formula, targeted enrolment envelopes for specific enrolment increases (teacher education, medicine, nursing), the Access to Opportunities Program, an Enrolment Expansion fund (Access) for general growth and the double cohort, a Quality Fund, a Performance Fund, a Research Overhead Fund allocated on the basis of shares of tri-council funding, a host of special purpose funds and mission-related specific grants.

**Table 1: Total Operating Grants – 2004/05 (\$000s)**

<b>Grant Category</b>	<b>2004/05 (\$000s)</b>	<b>% Dist.</b>
Basic Operating Grant	\$ 1,868,400.7	81%
Enrolment Expansion	\$ 81,438.4	4%
Quality Fund	\$ 74,597.5	3%
Performance Fund	\$ 23,160.0	1%
Research Overhead Fund	\$ 27,751.8	1%
Mission Related Fund	\$ 46,140.2	2%
Tuition Freeze Compensation	\$ 41,700.0	2%
Access to Opportunities	\$ 53,027.0	2%
Institution Specific	\$ 55,386.7	2%
All Other	\$ 22,792.7	1%
<b>Total Operating Grants</b>	<b>\$ 2,294,395.0</b>	<b>100%</b>

Source: Hon. Mary Anne Chambers, Memorandum to Executive Heads of Provincially-Assisted Universities, 2004-05 University Operating Grants Allocations and 2004-05 Accountability and Funding Agreements, August 19, 2004. Table 1.

On the tuition front the Liberals froze tuition for 2004/05 and 2005/06. The Rae Review is intended to help shape government policy for the 2006/07 year. Prior to the freeze tuition for the majority of students (undergraduates) had been limited to about 2% per year since the announcement in 2000. In the case of the ‘cost-recoverable’ professional programs, as noted earlier, institutions had full discretion in setting fees, subject to ensuring student assistance provisions were in place. At the graduate level the government policy was the same as that for the preceding professional programs – institutions were free to set the tuition level providing student assistance provisions were in place.

Federally, the university sector had come to rely on the various federal programs yet it was unclear about the long-term nature of the commitments. The CFI, CRC and Millennium Scholarship programs, for example, were funded with one-time allocations and had time limits associated with the duration of the programs. Moreover, it was becoming increasingly difficult for the new provincial government to determine how it should respond to the federal initiatives. A program like the Canada Graduate Scholarship Program, for example, was consistent with the need to encourage students to pursue graduate studies. Yet increases in graduate enrolment led to demands for more provincial operating funds.



Finally, another major funding source, private sector donations, were coming off another year of relatively ‘flat’ performance. While private donations had increased markedly in the latter part of the 1990s fuelled by government ‘matching’ programs, an expansion of fund-raising operations, and a robust stock-market, the experience of the last few years reflected different economic conditions and stories about ‘donor fatigue’.

As Mr. Rae assumed the mantle of yet another review of postsecondary education he faced a more complex financial situation than his predecessors. In total, absolute funding had never been greater. Yet it seemed apparent that more funds would have to be invested to keep up with burgeoning enrolments. Regardless of where the funds came from, the fiscal climate demanded the prudent use of all resources and evidence that new investments would yield tangible results; hence the need for a look at accountability.

## **B. Accountability**

The post-secondary sector has been subject to calls for more accountability for many years. Despite the fact the enabling legislation for each institution was set by government and requires some specific reporting on a regular basis, the universities have been swept up in the government’s penchant for accountability, subject to increasing scrutiny by the Provincial Auditor since the late 1980s, and subject to an increasing reporting burden. Table 2 chronicles the major provincial government accountability initiatives of most relevance to the universities.

**Table 2: Summary of Provincial Accountability Initiatives**

- 1988 to 1991: Inspection Audits of 3 Universities by Provincial Auditor
- 1991 to 1993: Task Force on University Accountability (Broadhurst Report)
- 1995: Ontario Financial Review Commission
- 1997: Ontario Budget – discussion of *Public Sector Accountability Act*
- 1999: Report of the Provincial Auditor on University Accountability
- 2000-2001: COU-Ministry Task Force on the Provincial Auditor’s Report
- 2001: Public Sector Accountability Act (proposed)
- 2003: Multi-Year Base Funding Accountability Framework (pending)
- 2003/04: Bill 18 Expanding the powers of the Provincial Auditor (value-for-money audits)

The Broadhurst Report had major implications for universities because it was aimed specifically at university accountability. As such, the report provided a detailed accountability framework for universities and, at least initially, all institutions moved to implement various recommendations. The Broadhurst Report highlighted the important role of the Governing Boards and argued that the Boards were (or needed to become) the locus for accountability in the university sector.

Interestingly, while the universities themselves were being asked to be more accountable, the fact is the Ministry was being asked as well. The Provincial Auditor’s Report on the Ontario Student Assistance Program identified weaknesses in the Ministry’s accountability mechanisms and led to more formal auditing requirements. The Provincial

Auditor's report on the *Ministry Accountability Framework for University Funding* concluded that it was difficult to determine how well the university system was meeting provincial needs and achieving postsecondary objectives. That report included specific recommendations in a host of areas including university governance and accountability processes, measuring and reporting program quality, access, monitoring the financial health of universities, university performance reporting, and funding university education. The university community responded by developing a more prescriptive accountability framework and articulating a set of 'shared goals'<sup>23</sup> with the Ministry of Training, Colleges and Universities as follows:

1. All appropriately qualified Ontario students will have access to a place in an Ontario university.
2. No student will be denied access to the program of his or her choice for financial reasons.
3. The education received by Ontario university students will be the best in Canada and on par with that offered in the best public universities worldwide.
4. Research support will enable Ontario's faculty and students to add valuable knowledge and produce economic and societal benefits to all Ontario residents such that the province secures a reputation for excellence in both its scientific/medical and its humanities/social sciences research.
5. The physical environment of Ontario universities will be safe, up-to-date, accessible to those with special needs, and will enhance the learning effectiveness of each student's educational experience.

As of the Spring 2005 there had been no formal response by the Ministry.

Leading up to the Rae Review there had been successive initiatives to introduce greater accountability into the public sector and the universities were swept along with the tide. The efforts of the university community to demonstrate that their own houses were in order and jointly develop a workable framework with government essentially fell on deaf ears. The government has focused on ensuring that all Ministries have appropriate accountability mechanisms in place. One result of increased Ministry interest in accountability is increased reporting and that is the legacy to date as evidenced by the following partial list of reporting requirements. But is it accountability?

**Table 3: Existing Reporting Requirements to the Ministry**

1. Enrolment Target Agreements (ETAs) and all related reporting
2. Audited financial statements
3. Audited enrolment reports
4. Capital Plan Investment reports
5. Major Capital Support Program reports
6. Facility Renewal Program reports
7. Ontario Student Opportunity Trust Fund (OSOTF) Status Report

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<sup>23</sup> Council of Ontario Universities, *Shared Goals and Building Blocks*, published in September 2003.

8. Access to Opportunity Program (ATOP) reports
9. Ontario Graduate Scholarships in Science and Technology (OGSST) reports
10. Bilingualism Grants reports
11. Tuition Fee Set Aside Reports
12. Tuition Fee Survey
13. Tuition Fee Monitoring Reports
14. Accessibility Funding for Students with Disabilities reports
15. Quality Assurance Fund reports
16. Audited OSAP Compliance Reports (every 3 years)
17. Reports on Special Purpose Grants to individual universities, including:
  - Aboriginal Education and Training Strategy Program reports
  - Educ-Action reports
  - Interpreters Fund Reports
  - Women's Campus Safety Grant Reports
  - Nursing – Compressed/Masters Expansion/Collaboration reports
  - Reports on Programs of French as a Minority Language
18. Graduate Survey (for the KPIs)
19. USIS reporting (enrolment reporting, November, February, May, July)
20. New Program Approval submissions

Source: Council of Ontario Universities, *Proposed University Accountability Framework*, Appendix B, Submitted by COU to the Postsecondary Review, November 15, 2004

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At the time of the Rae Review, Ontario's universities had been actively engaged in improving their own *internal* accountability mechanisms and major strides had been made at many institutions in implementing the recommendations of the Broadhurst Report. It is entirely possible that the missions, visions, and goals of nineteen individual Ontario universities would, collectively, sum to the needs and objectives of the province. Nevertheless, the Provincial Auditor's report on *the Ministry Accountability Framework for University Funding* suggested, strongly, that the government needed to be more prescriptive in setting objectives and holding the universities accountable. The stage was set for a review.

### **III. Ontario: A Leader in Learning**

#### **A. Overview of the Rae Report**

Faced with a somewhat daunting task, Mr. Rae established three overarching goals to focus his recommendations: 1) Great Education; 2) Opportunities for More People; and 3) A Secure Future for Higher Education. It is in the strategies for the latter goal that he outlines a proposed revenue framework, a regulatory framework for tuition increases, and the importance of multi-year plans as a linchpin for accountability. The preceding strategies are intended to support the very first recommendation of the Rae Report, as follows:

Legislate a mission for Ontario as a Leader in Learning, founded on: access for all qualified students to higher education, excellence and demonstrable quality in teaching and research; institutional autonomy within a public system; and the mutual responsibility of government, institutions and students. p.39

The strong commitment to legislation is a key component of the Mr. Rae's overall plan. It is clear he has come to the conclusion that without a strong sense of mission and a set of goals (what are you trying to do?) it is extraordinarily difficult to figure out how to do it and muster the resources to make it happen. Moreover, how can you be held accountable? To have the mission enshrined in legislation reinforces the reality of the goals, the public nature of the post-secondary system and, hopefully, government's commitment to provide the requisite funding. Securing the funding, allocating it in support of those goals, and being more visibly accountable are the key elements associated with the goal of A Secure Future for Higher Education. In Rae's estimation it begins with the revenue framework.

Establish a new framework that provides sustainable revenues for institutions, in which the key funding partners – the provincial and federal governments, institutions, students – each contribute in a responsible and predictable manner. Obtain a commitment from the federal government to become a full funding partner in supporting base operations and priorities for labour market training and immigration, apprenticeship, research and graduate education in a predictable and sustained way. Invest a total of at least \$1.3 billion in new provincial base funding to institutions by 2007-08. This investment would focus on quality improvements and results, fund enrolment growth and ensure that all eligible students are properly funded. It should include funding to institutions that covers: higher costs incurred by institutions serving significant numbers of students that require additional services, the high cost of providing clinical education and the base adjustment for revenues lost as a result of the tuition freeze. Allocate provincial funding through a new transparent formula comprised of core funding for basic operations and strategic investment envelopes tied to results, and applied to both colleges and universities. By 2007-08, the per-student revenue base of Ontario's colleges and universities should be at least comparable to other provinces. This would require at least \$1.5 billion in new revenues to institutions. The "stretch target" over the long term should be to bring the per-student revenue base up to the level of public institutions in peer North American jurisdictions. This would require approximately \$2.2 billion more in revenues to the institutions than they receive today.

The proposed revenue framework speaks to four points: 1) expected contributions from all partners; 2) a major investment of provincial funds to be allocated through a formula that includes core funding and strategic investment envelopes (Table 4); 3) specific reference to a minimum and a 'stretch' target for per student revenue with timelines; and 4) the importance of responsible and predictable funding. Together those points combine to provide enormous potential to address many challenges facing Ontario's universities.

By establishing a provincial investment figure of \$1.3 billion and a minimum and stretch target for per-student funding of \$1.5 billion to \$2.2 billion Mr. Rae is clearly indicating that all partners will have to contribute. The province may be the largest investor, but to 'close the gap' requires more than just the provincial investment.

The emphasis on responsible and predictable funding are key elements of the framework because it speaks to the importance of governments (federal and provincial) providing sufficient funding to meet the true cost requirements (including inflation) associated with Goal #1, to make Ontario a leader in learning. Moreover it reinforces the importance and value of planning to the achievement of goals. As we saw previously, the chaos of the last decade or so has not been conducive to planning nor the efficient use of resources. Interestingly, Rae is specifically recommending additional funding in one particular discipline area – health sciences – thus apparently validating the Nursing and Medicine funding concerns noted earlier.

In terms of specifics, it appears the predictability aspects of the revenue framework flow through to the allocation of funding to institutions.

Provincial grants would be allocated as “core funding” and supplemented by a number of clearly defined and well-targeted envelopes for graduate students (universities), apprenticeship (colleges), broader public sector programs such as medicine, nursing, education, mission-specific institutional requirements, and access priorities such as students from Aboriginal and francophone backgrounds, and students with disabilities. (p.97)

With respect to the core funding envelope Rae endorses the existing University ‘Corridor formula’ and indicates that it should be extended to the College sector. With respect to targeted envelopes specific mention is made to consolidate the number of envelopes “to link funding with results achieved” and in the case of the graduate funding envelope there is specific reference for incentives “to increase enrolment and improve time-to-completion”. Formulaic allocation mechanisms can be designed to include the ‘predictability’ factor into the equation.

The report also speaks to a key characteristic of the funding formula in Ontario universities:

The allocation of provincial operating grants will be equitable – students in similar programs at different institutions will receive similar funding from government. (p.97)

Rae is explicitly acknowledging that the *government grant* will be similar but the other major component of funding – tuition – may be quite different in similar programs at different institutions. As noted previously, at one time the funding formula ensured the government grant and tuition income per student was essentially the same in similar programs at different institutions. The ‘de-regulation’ in the Common Sense Revolution effectively broke the link.

Tuition, which is dealt with as a separate recommendation, would be set by institutions subject to a regulatory framework “enshrined in legislation”. The framework would “ensure that future increases are predictable, transparent and affordable”...institutions would be responsible for supporting low-income students and students in need to cover fees in excess of \$6,000 per year.” (p.99) The tuition regulation appears to apply to

direct-entry undergraduate programs only implying that all other programs would, by definition, be de-regulated.

Together, the proposed revenue framework and the proposed ‘tuition regulation’ provide the vehicles to secure the additional funding to ‘close the gap’. Further, the framework incorporates a few key principles that should guide the actual allocation of funds to individual institutions.

Table 4 Rae Review – Specific funding recommendations

ADDITIONAL ANNUAL FUNDING REQUIRED FROM PROVINCE BY 2007-08 (\$ million)		
	Investments in Colleges & Universities	Support for Students & Other Expenditures
<b>Quality</b>		
Academic Renewal/Student Experience, includes adjustments for	700	
– Previously Unfunded Enrolment Growth		
– Keeping Up with Cost Increases		
Council on Higher Education		8
International		10
<i>SUBTOTAL</i>	700	18
<b>Participation &amp; Access</b>		
Enrolment Growth	88	
Expand Graduate Education	180	
Aboriginal	13	2
Francophone	20	
Persons with Disabilities	15	
Northern and Rural	20	
First Generation	5	
Web Portal		1
<i>SUBTOTAL</i>	341	3
<b>Affordability</b>		
Tuition Stabilization	115	
Medical and Clinical	100	
New Tuition Grant (net new expenditure)		193
Supplemental Loans to Parents		21
Ontario Student Opportunity Trust Fund		50
New Ontario Learning Bond		36
<i>SUBTOTAL</i>	215	300
<b>TOTAL</b>	<b>1,256</b>	<b>321</b>
<b>Capital</b>		
Facility Renewal	200	
New Facilities	300	
Equipment	40	
<b>TOTAL</b>	<b>540</b>	

The final piece of ‘A Secure Future for Higher Education’ involves the use of multi-year plans to provide the required accountability in a visible fashion. Those multi-year plans would include:

- the mission and program focus of the institution;
- enrolment targets, commitments to access, and tuition guarantees;
- planned improvements in quality of programming and the student experience;
- transferability of credits and areas of collaboration with other institutions;

- revenue requirements and how they will be met through provincial transfers, tuition and other sources;
- the results and measures that will be used to demonstrate progress against the multi-year commitments.

These plans should be informed by the work of the Council on Higher Education. A Standing Committee of the Legislature should conduct periodic reviews of individual institutions' multi-year plans and performance. (p.104)

If the new legislative framework is intended to answer the question “what are you trying to do?” do the proposals in the revenue framework and tuition regulation provide the means? And does the proposal for multi-year plans provide the appropriate accountability mechanism to feel confident about the ends? The devil, as they say, is in the details.

## **B. Assessing the Rae Approach**

### **i. Recommended Funding Levels**

Before turning to the specific mechanisms inherent in the framework, it is important to assess the *adequacy* of the overall level of required funding identified in the Rae Report. As noted in the previous table the total sums to almost \$2.1 billion and applies to both colleges and universities: \$1.3 billion for operating; \$300 million for student assistance; and \$540 million for capital. Of the \$1.3 billion for operating costs, a major portion appears to be earmarked to ‘close the funding gap’ between Ontario and other jurisdictions.

The use of other jurisdictions as benchmarks appears, on the surface, to be a reasonable way to determine whether the level of current funding is more or less adequate. The fact is, however, benchmark comparisons are only as good as the chosen benchmarks. There are considerable structural differences in the provincial higher education regimes across Canada, and major differences between Ontario and public systems in the United States.

From the Rae Report itself it is difficult to determine the exact funding comparisons that were made. In the case of the *universities* the ‘gap’ is identified as about \$1000 per student in 2002<sup>24</sup> or approximately \$300 million (\$380 million by 2004-05) but no details are provided. There are, in fact, many reasons to suspect that the identified funding gap with other provinces is actually higher (Snowdon, 2005). Moreover, there is little in the way of comparative analysis that indicates levels of access and quality elsewhere and so it is not clear what the *funding* benchmarks actually mean. Does greater provincial investment in other provinces result in greater access and/or quality?

Interestingly, given the *Leader in Learning* moniker, there is little reference to the benchmark *leaders* but rather a focus on the benchmark *average* (or less). The ‘stretch’ target is actually a ‘stretch’ to the *average* funding levels. One could argue that a *Leader in Learning* should be heading towards the leading benchmarks. In the case of the comparison with public universities in the United States, that funding gap alone is identified as \$1.8 billion. (p.94) The fact that Rae is suggesting that only \$380 million is

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<sup>24</sup> The figure of \$ 1000 per FTE is cited in Riddell, p.28

needed to close the gap with universities in other Canadian provinces illustrates the serious funding disadvantage faced by all Canadian universities relative to public funding levels in the United States.

There were, of course, other options to arrive at an estimate of the funding required to improve access and quality. It would have been possible to construct a number of assessments of university (and college) finances and arrive at funding requirements based on assumptions about increased enrolments, improving student to faculty ratios, meeting space standards, improving library collections, and improving student services. It may be that the Postsecondary Review Secretariat did that kind of modeling but it is not evident in the report.

This review of the adequacy of the proposed funding is not intended to be a criticism of Mr. Rae nor the Postsecondary Review Secretariat. Meaningful jurisdictional comparisons are very difficult and fraught with pitfalls. There is considerably more work to do to arrive at good comparisons to inform public policy decisions. In that regard, the report's recommendation about the establishment of a Council on Higher Education, and the research role of such a Council, is welcome and perhaps will fill the need identified in the Smith Report (1996) to improve the "publicly available information on postsecondary education and research" and produce a "regular report on the comparative strengths and weaknesses of Ontario's system relative to those in other jurisdictions." (p.10)

In the meantime, there is no question that the proposed infusion of new public funding will make a difference. Will it be enough to make Ontario a *Leader* in Learning? That is difficult to judge at this juncture. What we can do though, is assess the mechanisms that Rae is proposing against the stated goals of access for all qualified students, excellence and demonstrable quality in teaching and research, institutional autonomy within a public system, and the mutual responsibility of government, institutions and students.

## **ii. Access**

The legacy of the Robarts era carries over into Rae's views on access. He refers to Education as the "bedrock of opportunity" and his proposals are aimed at encouraging greater participation. In that regard he takes the Robarts policy a step further – Ontario needs to ensure Ontarians are provided with the opportunity to pursue postsecondary education. Access to postsecondary has moved beyond providing a place to those who wish to pursue such an opportunity; it is now an imperative and government must be proactive in encouraging greater participation (and funding access in a 'responsible' manner).

Access is a function of a number of factors including affordability, outreach and capacity. Rae appears to have dealt with the first two issues in a fair, balanced way. Through the use of an upfront grants system for low income students and targeted funding for under-represented groups the proposals should have a positive impact. In the case of middle income families he recommends easier access to loans and reduced loan costs. It appears he believes tuition is reasonably affordable for the majority of students and cites evidence on private returns to help justify future increases.



Rae acknowledges the importance of increasing capacity to deal with access and he recognizes that core operating funding as well as increased physical infrastructure must be included in the equation. In the case of core operating funding it appears he endorses a continuation of providing average grant funding for projected enrolment increases although he stresses the importance of increasing participation for all under-represented groups. Special supplementary grants would then be used for specific groups as defined – Aboriginal, Francophone, Persons with Disabilities, Northern and Rural, and First Generation. The *existing* array of funding envelopes includes specific reference to programs for Aboriginals and Persons with Disabilities. Additional funding would be added to enhance existing programs. In the case of Persons with Disabilities he recommends the distribution of funds be based on the actual number of student with disabilities rather than a *prorata* share based on total enrolment – an eminently reasonable proposition that will be tested when trying to determine how many persons with disabilities are actually on campus.

With respect to the other specific groups different mechanisms are proposed to improve access including special outreach programs. Improvements in participation can be measured and Mr. Rae's emphasis on setting participation targets and monitoring progress towards those targets will help focus more attention on access issues and access strategies.

The proposed increases in capital funding for facilities renewal and new construction are positive developments and important contributors to improving access. Facilities renewal funding helps ensure existing facilities can be used in the most effective way and also helps to fund the physical infrastructure needs of persons with disabilities. Currently the facilities renewal monies in the university sector are allocated on a formula basis using imputed space requirements – a reasonably sound and fair system that recognizes the legitimacy of reasonable space standards. Each institution receives a share of the facilities renewal funding based on its imputed space requirements using a methodology that involves inputs (# of students, # faculty) and specific space standards for varying types of space (classroom, laboratories, offices, library etc.). The allocation of the facilities renewal funding provides a direct link to a specific set of inputs and, along with something called the Facilities Condition Index (FCI), provides a systematic way of measuring the impact of the facilities renewal investment on the condition of the physical infrastructure. All institutions have invested in the appropriate software and personnel to collect the required information and it has become part of on-going operations. The actual space standards – originally established in the 1970s – are reviewed on a regular basis, updated as required, and are generally seen as a reasonable measure of space requirements, although there has been expressed concern about the need to adjust the standards for research space.<sup>25</sup>

Capital funding for *new* construction has always been somewhat of a contentious issue given the politics associated with capital decisions; politicians like to be able to cut ribbons and such projects provide some economic benefit to the community. The most

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<sup>25</sup> For a detailed review of the space standards see COU, *Inventory of Physical Facilities*, 2001.

recent provincial experience in the university and college sector was the SuperBuild program (now called Public Infrastructure Renewal Projects) associated with enrolment growth and the double cohort.

The SuperBuild initiative led to the greatest investment in the post-secondary sector since the ‘baby-boom’ expansion of the 1960s. SuperBuild involved a competition for provincial funds with criteria as follows:<sup>26</sup>

- 1) Allowance for enrolment growth – how many additional students would be accommodated?
- 2) Private and Non-Provincial Government Funding Contributions – how much funding would be provided by “other” sources.
- 3) Student demand – was there evidence that the university had sufficient demand or would have sufficient demand to fully utilize the facility; and
- 4) Community / Regional impact – how would the project benefit the long-term economic strength of the community and region.

Individual institutions could add other considerations such as the current state of facilities (quality and quantity) but it was clear that the main determinants would be the preceding four items. More importantly, given the government’s general views about encouraging private sector contributions and maximizing the use of the available funds, there was a general sense that the first two criteria would carry added weight in the evaluation.

The initial results of the competition were a boon to some and a bane to others. The apparent overemphasis on the ‘cost per space borne by government’ led to the college sector being awarded a disproportionate share of the ‘spaces’. The attempt to use a supposed competitive rational allocation device fell into disarray in the face of political realities and the realization that significant student demand was going to be in the university sector. By the time the SuperBuild allocations were completed there were actually three major allocations – Spring 2000, Fall 2002 and Spring 2003 – and it was evident that some basic planning assumptions had gone awry. As the students voted with their feet, it became crystal clear that government had allocated too much capacity to the college sector and too little to the university sector. Moreover, the assumption that institutions would be able to raise private monies to help meet the overall capital requirements gave way to the reality of fund-raising shortfalls. At many institutions, operating budgets had to absorb the added burden of capital financing. Buildings were built and the double cohort was accommodated. Would a more formulaic approach have yielded a better result?

Mr. Rae makes no recommendation about the actual mechanics of the capital allocation he is proposing (\$300 million for colleges and universities combined) other than to suggest that it should be tied to enrolment plans and that private sector contributions, while welcome, should not be factored into the allocation process. The reference to enrolment plans could be read as suggesting the funding should be based on planned enrolment increases. That, of course, implies an emphasis on accessibility. At this time,

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<sup>26</sup> Ministry of Training, Colleges and Universities, *SuperBuild Growth Fund for Postsecondary Education*, October, 1999.

however, virtually every university in the province has less space than the space formula dictates and some institutions are below 50% of the calculated entitlement. To the extent there is support for formula funding one could argue that all, or most, of the capital funding should be allocated on a formulaic basis. In fact, if government was to move in that direction the Facilities Renewal funds and the New Construction funds could be pooled and allocated formulaically. Institutions would then be able to make sensible trade-offs about whether to renovate space (renewal) or replace it with new space. Moreover, the predictability associated with the formula financing would enhance the use of those monies significantly.

### **iii. Excellence and Demonstrable Quality in Teaching and Research**

Given the overall level of new provincial investment recommended by Mr. Rae, it is evident that he is relying on two other factors to realize this goal; tuition increases and an accountability framework that involves multi-year plans with institutional commitments to measurable quality improvements.

In the case of tuition, the report is very clear:

Greater tuition fee variation will promote institutional and programmatic differentiation, by accommodating the unique revenue needs associated with different approaches to program delivery, student services and quality enhancements. (p.102)

Internal resource allocation policies within the institution have a major role to play in fostering 'excellence and demonstrable quality in teaching and research'. Too great a reliance on 'funding follows the student' can lead to greater balkanization, 'haves' and 'have-not' faculties and schools, and unintended results. Institutions will have to be clear about their own internal resource allocation policies. That, in turn, should lead to greater attention actually being paid to costs and the differentiated nature of costs across an institution.

Will increased tuition lead to improved quality? Certainly the additional revenue from tuition – along with the other revenue identified by Rae – will help provide the necessary wherewithal to have a demonstrable impact on the inputs that we tend to equate with 'quality' – more faculty, reduced student/faculty ratios, better facilities, updated equipment etc. Tuition increases, however, must not be seen as a substitute for provincial grant increases if there is to be quality improvement; witness the lessons of the mid to late 90s.

In thinking about the impact of increased funding on 'excellence and demonstrable quality' it is important to recognize that there are a number of competing claims for all new resources. A very large portion of institutional costs is driven by compensation adjustments for faculty and staff. In 2003-04, for example, salary and benefit payments totaled over \$3 billion and represented about 75% of Operating expenditures.<sup>27</sup> Each 1% increase in compensation is about \$30 million. Faculty compensation represents about 60% of the total. That reality has two key elements: the impact of differentiated tuition on

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<sup>27</sup> Interestingly, the next largest expense was Scholarships and Bursaries at \$323 million. Committee of Finance Officers, *Financial Report of Ontario Universities, 2003-04*, Table 6 Expense - Operating, p. 36

compensation levels; and the pivotal role that compensation plays in excellence and demonstrable quality.

In the case of the first issue, there is evidence that faculty in programs with differentiated tuition (e.g. Business, Engineering, Law) have gained relative to faculty in programs where tuition is regulated. Market considerations are often cited to justify higher starting salaries for junior faculty. That in turn leads to claims from existing faculty for anomaly adjustments or other compensation arrangements. To the extent that one Faculty can more readily pay (through differentiated tuition income) there is greater likelihood that the local Faculty ability to pay may supplant true market considerations. Institutions will need to carefully consider the best way to ensure that true 'market' considerations are determining hiring salaries and requests for anomaly adjustments or special compensation dispensation. On the one hand the collective bargaining process acts as a check on the range of on-going compensation practices within an institution. That is to say there is a propensity to treat the professoriate as a single entity all doing the same job regardless of the specific market considerations. However, at the point of hire, the collective bargaining process is not in play and there can be wide variations in the salaries of new hires.

One might argue that in a true market, students and government (as the two principal funders) should be able to exercise some influence on faculty compensation increases. Governments, one might argue, can influence the overall ability to finance compensation increases through the level of operating grant. If institutions decide to award compensation adjustments in excess of the revenue provided by government, the consequences involve internal resource allocation trade-offs (e.g. increased class sizes, using more part-time faculty, reducing allocations for library acquisitions, reducing faculty or staff complements). Supposedly, the process for approving the compensation increase would weigh the consequences and determine what is in the best interests of the institution. It is less clear how students paying differentiated tuition influence decisions about compensation increases.

Mr. Rae understands the importance of compensation on 'excellence and demonstrable quality'. On the one hand it is important to have the best faculty available and those faculty deserve, and will command, a reasonable salary. Moreover they should have some reasonable assurance that their individual salary will increase in real terms over their career. On the other hand, faculty compensation is such a large part of the overall expenditure equation that providing annual increases can leave little for improvements in student to faculty ratios, library acquisitions, learning technologies and basic infrastructure. Mr. Rae speaks directly to the point in his opening essay:

There needs to be a candid discussion – and consequent decisions – to ensure that new money does not simply translate into much higher, across-the-board salary increases. Pay systems should be sufficiently flexible that real merit and outstanding performance can be appropriately rewarded. Student contact, mentoring and teaching excellence have to be strong components of compensation incentives. If substantial amounts of new money are simply swallowed by the existing system, without

improvements in the quality of the student experience, nothing much will have been achieved. Both governments and students would rightfully feel that an opportunity had been squandered. It is well within human will and ingenuity to ensure that new money means better and more tangible results. (p. 17)

Mr. Rae makes a careful distinction between “across-the-board salary increases” and pay systems that incorporate or allow merit provisions and the rewarding of outstanding performance. In that regard his exhortation is similar to recommendation 16 of the Report of the Advisory Panel on the Future of Postsecondary Education (Smith Panel, 1996):

We recommend that governing boards of colleges and universities ensure that a high proportion of compensation increases is awarded in recognition of excellence in teaching and, in the case of universities, of research performance, and that without becoming involved in individual cases, governing boards ensure that appropriate processes are in place to assess and reward performance. (p.11)

Mr. Rae knows that compensation systems can have an impact on quality and he is also cognizant of the pitfalls (internal and external) of having a disproportionate amount of the recommended new funding ‘swallowed by the existing system’. The proposed solution to this rather delicate problem is imbedded in the concept of multi-year plans. As envisaged by Mr. Rae,

Each institution will start by setting out, in consultation with students, government and the community, goals and strategies to meet its mission, contribute to the province’s accessibility targets and enhance educational quality. These discussions will drive the establishment of each institution’s multi-year revenue requirements. (p.95)

The process of arriving at and publishing these plans will supposedly keep all the parties and interests ‘honest’. A transparent process – involving exploring ways to realize cost savings - will convince all of the parties of the need for prudent use of resources, provide the justification for compensation increases and the rationale for any tuition increases. The added suggestion to have institutions report to a standing committee of the legislature could be seen as yet another factor that would help with transparency and thus yield mutually satisfactory results.

Will it work? As Mr. Rae discovered during his Social Contract experiment, collective bargaining in the public sector is characterized by entitlements and an interesting disregard for fiscal realities.<sup>28</sup> Rational arguments and full disclosure of all information *may* improve the *process* but there is little evidence the result will change.

What are the options? Perhaps the proposed Council on Higher Education will be able to provide the necessary analysis and publish appropriate reports that will help ensure all decision-makers are fully apprised of the compensation arrangements at each institution. Better information may lead to better decisions. Perhaps government could use moral

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<sup>28</sup> Bob Rae, op.cit., Chapter Thirteen “Social Contract”.

suasion to ensure that funds are directed to quality improvements. Perhaps government targets the funds for quality improvements and uses the new powers of the Provincial Auditor to ensure the funds are used for specified purposes. Each of those options involves more government intervention than the university community is likely to want although the Provincial Auditor, with new found powers, will soon be knocking on the universities doors in any case. If government begins to fund inflation – as recommended by Rae – that may help to ensure that more of the *new* funding is available for quality improvements.

Another option is to formally place this issue squarely in the hands of University governance – Senates and Governing Boards. One of the puzzling omissions in the Rae Report is the lack of any reference to governance given the important role that both Senates and Boards could (and should) play in the quest for improved access, excellence and demonstrable quality in teaching and research, and in reinforcing the importance of institutional autonomy. Both bodies have representation from various communities in the institution. The Board represents the one entity on campus with fiduciary responsibility that has representation from all of the ‘communities’ – students, faculty, staff, government, alumni, interested citizens and the administration. Governance structures in the institution should be responsible for developing and approving multi-year plans, monitoring progress and ensuring that the institution is paying attention to ‘excellence and demonstrable quality’. In that process governance bodies will have to become more familiar with compensation issues and key policies that influence compensation levels and the inherent resource allocation trade-offs.

At the same time the selection, monitoring and publication of quality indicators may help provide a decision-making environment where various factors affecting quality are taken into consideration. In fact, Mr. Rae is quite explicit about one quality indicator in particular – the use of surveys of student engagement. The National Survey of Student Engagement (NSSE) and the Community College Survey of Student Engagement (CCSSE) are regarded as steps in the right direction to begin collecting information that provide more insight into the factors that may influence student engagement. As such, over time, the results may help inform internal resource allocation decisions and a variety of institutional practices and policies.

Finally, to reinforce the importance of this particular goal – excellence and demonstrable quality in teaching and research – the report calls for the proposed Council on Higher Education to take a lead role in the development of a quality assurance framework that would include both quantitative and qualitative measures at the system level and institutional level.

#### **iv. Institutional Autonomy within a Public System**

The proposal for legislated frameworks and multi-year plans with public reporting requirements will be seen, by some in the university community, as a threat to institutional autonomy. Will government have more to say about the programs an institution offers, its planned level of enrolment, the use of resources, and admission standards? Government already has processes in place to approve programs for

government funding, set 1<sup>st</sup> year enrolment targets for each institution and targets for some specific program areas. While the government does not stray into institutional admission standards, it has established a minimum admission standard for government funding eligibility. Students must meet that minimum threshold or the institution is not allowed to claim the student for government funding.

There is evidence from the past of government's willingness to exercise greater control – especially if access is seen as being compromised. However, the proposals in the Rae Report may actually provide greater, or at least maintain current, levels of institutional autonomy.<sup>29</sup> Institutions will have the opportunity to 'make the case' as individual institutions, focusing on their own mission with goals that are set at the institutional level. Similar exercises in Alberta and British Columbia as well as the short-lived Performance Contract exercise in Quebec appear to be workable.

But, let's be clear. The sum of the institutional goals must be consistent with *accessibility*, *affordability* and *quality* goals of government. To the extent that the legislated framework helps define the goals for the province, and ensures a funding commitment commensurate to the achievement of those goals, the university sector should be racing to embrace the proposal. The lack of a clear set of government goals on those three issues has allowed successive governments to skimp on funding and not be held accountable to Ontarians. The lack of public reporting to the legislature has meant that postsecondary issues have not been given the attention they deserve.

#### **v. Mutual responsibility of government, institutions and students**

It is clear that Rae believes in the idea of mutual responsibility and his recommendations reflect that belief. There is a 'leap of faith' in his prescription of how these players interact and there is a view that each of the players – government, institutions and students – actually can act as single entities bound together in the common cause for an accessible, affordable, quality based higher education system. Again, the process of developing, negotiating and implementing the multi-year plan becomes the vehicle to rationalize the competing interests. The reference to mutual responsibility is important. How it will actually translate at the institutional level is a matter that institutions should be carefully considering because it will impact on governance and decision-making processes. Earlier comments about the perils and pitfalls of the Social Contract may be applicable.

Rae also expects more from the Federal government, specifically:

Financial support through the CST for postsecondary education needs to be restored and increased in the future to keep up with inflation and enrolment increases.... The

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<sup>29</sup> The one disturbing part of Rae's multi-year plan is the reference to including all sources of revenue in the plan and the potential for government to therefore factor private giving and investment income into the overall funding equation. Those monies have been differentiating characteristics for some institutions and at one time were often cited as the 'margin of excellence'. Any explicit attempt by government to factor those funds – in a negative fashion – into institutional or system allocations will have a dampening effect on private giving.

Federal government should also establish a separate fund to help colleges and universities pay for needed equipment and campus improvements. It should be allocated among provinces on an equal per capita basis. p. 96

It is far beyond the scope of this paper to delve into the intricacies of federal-provincial financing.<sup>30</sup> However, Mr. Rae's views are quite clear about the federal role. He sees the cut in transfers and the subsequent reinvestment in targeted programs as a destabilizing influence that is not in the best interests of Ontario. Therefore, in his view, the restoration of the CST would help provide the wherewithal to fund an accessible, affordable and quality system in Ontario. Whether the restoration of the CST should supplant the other funding programs of the federal government (i.e. indirect costs) is an issue left untouched. While one could make a good case for leaving those programs outside any discussion of a restored CST, one could also make a good case for wrapping the funding into the CST. The implications for individual institutions – assuming the funds flowed through to the university sector – are significant.

If the federal government is to have a responsibility role – as suggested by Mr. Rae – it is interesting that there is no reference to federal involvement in the development of multi-year plans. Yet, it is recognized that the federal fiscal contribution in research, student assistance and, increasingly, core operations (CRC's and indirect costs) is significant.

#### **vi. Reflections on quality and differentiation**

Do the Rae Report *funding* recommendations establish a framework for improved quality and differentiation? As noted earlier, the overall level of investment will help with quality improvements. To the extent that the allocation mechanisms adopted by government ensure a 'level playing field' the competitive nature of universities will help reinforce the importance of quality. As David Smith noted in his seminal piece on quality:

Universities compete and should compete. They compete for the best faculty, the best students, the most funds, and the best learning environment. For all such attributes, "best" and "most" are defined by the nature of the institution and its mission, but there are varying degrees of overlap among institutions that strengthen competitive incentives. (p.33)

At the same time Smith also pointed to the importance of collaboration in defining quality

Quality also requires a reasonable degree of collaboration among universities.... This collaboration should be based on the more effective use of resources that can be achieved through the combination of teaching, research and administrative matters. (p.33)

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<sup>30</sup> For an interesting insightful review of federal-provincial interactions in the post-secondary sector see David Cameron, *Post-secondary Education and Research: Whither Canadian Federalism?* in F. Iacobucci and C. Tuohy, *Taking Public Universities Seriously*, 2005.



Smith's insights provide a valuable guide for assessing Rae's funding recommendations. Do the recommendations hamper competition? Do they encourage collaboration? For the most part the funding recommendations are neutral and, given Rae's penchant for maintaining the corridor system, the largest component of the new investment may in fact be allocated in a way that reinforces 'the level playing field'. The exception seems to be the proposed funding associated with the expansion of Graduate Education where, in addition to increased enrolment, he includes reference to incentives to improve time-to-completion as a potential criterion for the allocation of monies – thus perhaps straying into the murky area of performance funding. The pitfalls of performance indicators and performance funding are well-known (Smith 2000, Lang 2005) and there is little need to review them here. It is clear from experiences elsewhere, and the Key Performance Indicator experience in Ontario, that performance funding has little to do with encouraging quality.

The conventional view of Ontario universities, it seems, is that there should be more differentiation – program differentiation and quality differentiation. In fact there is considerable differentiation in programming<sup>31</sup> and a wide range of institutional mandates. What may be seen as duplication by some (too many Faculties of Education, for example) is actually a reflection of a provincial system that recognizes the importance of geographic accessibility and the realities of program delivery. In the case of Education, for example, students need hands-on learning in the classroom – a reality that is best accommodated by having Faculties of Education located across the province. Further, while on the surface all Faculties of Education may look the same, in fact there are degrees of specialization and disciplinary focus that are only evident to those who actually take time to explore program offerings in some detail.

In terms of quality differentiation, governments have demonstrated over time that they have great difficulty dealing with the pressures associated with differential funding. It is extraordinarily difficult for the government of the day to admit that it provides more, or less, funding to a certain kind of student at one institution versus another institution. On what grounds would government justify the differential funding? Student marks? More importantly, there are different definitions of quality as noted in a recent Canadian Policy Research Network paper.<sup>32</sup>

From time to time governments have tinkered with the idea of performance-based funding or even implemented some performance based elements. But for the most part those funds represent a small fraction of the available funding and have little to do with differentiation on the basis of excellence and quality. In Canada, the granting councils operate, for the most part, on a merit based scheme that awards individuals (or institutions) on the basis of grant competitions. Those awards can result in significant funding differences at the institutional level. The fact that the federal government has used the distribution of those awards to determine allocations for other funds has already

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<sup>31</sup> In fact the Rae Report actually acknowledges that there is considerable program differentiation and it is one factor that contributes to the difficulties with credit transfer. (p.42)

<sup>32</sup> Finnie, R. and Usher, A., *Measuring the Quality of Post-secondary Education: Concepts, Current Practices and a Strategic Plan*, Canadian Policy Research Networks, April 2005

reinforced funding differentiation. Whether it has reinforced quality differentiation depends on definitions of quality.

Rae's funding tool for differentiation is, in fact, tuition. He recognizes the inherent difficulty of government allocating funds on a differential basis and, perhaps more importantly, he suggests that in a mass education system the government's first priority should be to provide access to a quality 'system'. The real value of the public investment in higher education – the public good – emanates from the provision of a quality education for as many students as possible. However, freedom to set tuition – within certain constraints – is seen as a vehicle to encourage program differentiation and, perhaps, higher quality in select programs. Certainly the provision of additional funds provides the potential for higher quality and program differentiation; but it is not automatic.

#### **IV. Summing Up**

The funding and accountability recommendations in *Ontario: A Leader in Learning* are intended to improve access, affordability and quality of higher education in the province. Will they? His key recommendations on a clear set of goals enshrined in legislation, more public investment in core operations, a new up-front grant system for students, and an accountability regime focused on multi-year plans with measurable outcomes, have the potential to help address years of inadequate funding, have a positive impact on the learning environment, improve access, and raise the profile of higher education in Ontario. From a funding perspective, the proposed infusion of new monies, providing there is adequate inflation protection, will provide sufficient funding to allow for greater access and should allow for improved quality inputs – more faculty, more staff, better facilities, expanded facilities etc. As noted earlier, the funding level is likely not high enough to make Ontario a *Leader in Learning*, but it is a good start.

Rae's endorsement of the 'corridor system' for allocating resources is a positive outcome and would appear to reinforce the concept of formula financing. If funded adequately, formula financing provides an allocation mechanism that 'levels the playing field' – a necessary pre-condition to a competitive environment. That general mechanism has served Ontario well and government should adopt the basic concept of formula allocations (as opposed to funding competitions) in the various funding envelopes. Equitable funding – that is students in similar programs at different institutions will receive similar funding – should not be seen as a rejection of quality considerations but rather as a necessary part of establishing the competitive framework. Ontario's universities are competitive and yet, at the same time, work together on a host of program delivery and service delivery initiatives. Rae has recognized the intrinsic and real value of that competitive/collaborative balance and judged it to be about right – with the exception, perhaps of the need for more collaborative efforts between Colleges and Universities.

Rae has assessed the more market oriented funding approach of the early Common Sense Revolution and he is not prepared to tread very far down that path. He clearly recognizes the public good / private good arguments and has tried to develop a plan that speaks to

current political realities which, in turn, are influenced by the polls of the day. Ontarians want an affordable, accessible post-secondary system. For the most part that system is viewed as government's responsibility. Over the longer term some of Rae's proposals like greater incentives for saving, better information for prospective students, better student assistance for low-income families, and more student assistance in post-secondary institutions, may lead to tuition playing an even greater role in quality and program differentiation. In the short-term, however, an infusion of provincial funds is necessary; the simpler the allocation mechanisms, the better. After fifteen years of turmoil one could argue Ontario's universities (and colleges) need a period of adequate funding with predictable funding levels and stable funding mechanisms so they can, in fact, focus on providing a quality learning experience.

Finally, the advent of multi-year plans is seen as *the* mechanism for keeping government and institutions honest. In return for greater public investment institutions will have to commit to deliverables that are consistent with government's access, affordability and quality objectives. In return, government commits to greater public investment. The existence of 'deliverables' explicitly addresses accountability and the incorporation of measures into the multi-year plans provides the opportunity for regular monitoring. The multi-year timeframe is also conducive to improved planning and improved predictability, two important ingredients in the effective and efficient utilization of resources.

At the same time, the multi-year plan commitment to deliverables (and government funding) may remove the incentive for government to constantly tinker with funding mechanisms. As noted earlier, government intervention through funding allocations and funding mechanisms can have quite negative effects. Rae's onus on the importance of a stable funding mechanism like the Corridor model, coupled with 'responsible' funding from government, underscores his appreciation of the importance of predictable funding and the benefits that can accrue in an environment where the focus is on goals and deliverables rather than just the means.

That focus on goals and deliverables will worry academe, and it should. The negotiation of multi-year plans with government has inherent risks and may well lead to a Faustian bargain where institutional autonomy withers away in return for greater government funding. To counter that worry, Ontario's universities – each of them – need to have a clear vision of the future and a clear sense of purpose, and be prepared to argue, as a system, that the sum of the parts is, in fact, greater than the whole; that a set of institutions can compete and at the same time collaborate in an efficient and effective manner; that self-regulation wherever possible is preferable to government regulation; and that their own governance systems are up to the challenge of realizing the Rae vision.

Rae's prescription for the post-secondary sector offers the potential for improvements in access, affordability and quality. At one level he has kept it simple: what are you trying to do? (goals); what do you need to get there? (means - strategies, tools, resources); and how would you know that you are making progress? (ends - indicators, public reporting, deliverables, accountability). At another level, the devil is in the details, and the details rest with government.

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