OCUFA Analysis of the 2013 Ontario Budget

OVERVIEW

The 2013 Ontario Budget was tabled on May 2, 2013. This is the second budget introduced by the minority Liberal government, and the first budget under Premier Kathleen Wynne. Titled "A Fair and Prosperous Ontario", the Budget is being positioned politically as a balance between the need to address the provincial deficit, and ostensible support for public programs that target youth and vulnerable populations. Many of the budget measures are also designed to appease the NDP, as their support is needed to pass the budget and ensure the government's survival. The Progressive Conservative Party has already indicated they will not support the Budget.

In terms of new specific measures targeting post-secondary education, there is very little in the 2013 Budget. The government has announced a new youth employment strategy worth $295 million. It is not clear how much, if any, of this funding will flow to universities and college. The budget indicates that some of the funding "will support entrepreneurs" on campus, largely through so-called "accelerator centres". The budget provides almost no details on how these centres will be established, organized, and funded.

The government also re-announced the "30 per cent off" tuition grant and the new tuition fee framework, where yearly tuition increases will be confined to an average of three per cent at each institution. Many existing college and university capital projects were also featured in the Budget, although these are all pre-existing projects. In actuality, there was no new capital funding in the Budget.

University funding will continue along the lines outlined in the 2012 Budget. That is, funding will continue to be provided to accommodate new enrolment. However, this is largely negated by the so-called "policy levers" – in reality, significant cuts – to operating funds. Between 2012-13 and 2013-14, these cuts will remove $121 million from university budgets. The government will also begin clawing back operating funds according to international enrolment, essentially imposing a "head tax" on all new international students. Taken together, these measures will continue the ongoing decline in per-student funding. Ontario already has the worst level of per-student funding in Canada, and this budget will make the problem worse. Austerity is still very much a part of Premier Wynne's spending plans, despite overtures to "fairness".

The 2013 Budget also signals that the government remains interested in pension reform. Although it presents few new details, the pooling of assets, 50/50 cost sharing, and joint sponsorship remain on the agenda. The Budget did note that a new “working group” that will advise the government on these issues. As yet, no details of the working group have been announced.

THE FUNDING PICTURE

Government operating funding

As in last year’s budget, the proposed funding plan makes it appear that increased enrolments are being funded by designating separate enrolment envelopes that show a net increase. At the same time, however, reductions in support for international students and “policy levers” – permanent cuts of $121 million over two years – are outlined. The combined effect is to restrain funding so it continues to fall behind the rates of enrolment growth and inflation.

The overall increase in Ministry of Training, Colleges, and Universities (MTCU) allocations for universities over the next two years is much the same as planned in last year’s budget – around half a per cent each year. Allocations for 2015-16 will rise by 1.6 per cent, bringing them to a level about 2.5 per cent higher than 2012-13. This increase is insufficient to account for inflation. Using the budget’s own assumptions about GDP inflation, total operating allocations to universities will fall by 2.5 per cent in real terms over the next three years.

The last time the total amount of operating allocations fell in real terms was 1997-98. Unlike now, this reduction in real levels of MTCU operating support was paralleled by a drop in the number of funding-eligible students. Cutbacks made by the PC government of the day included changes in the criteria for eligibility, but there was also a general decline in enrolment.

Operating allocations per student

At the moment, enrolment is not expected to decline. Stated government policy is to increase access and encourage participation. As overall funding declines and enrolment increases, per-student funding will suffer. It is entirely likely that per-student funding [i.e., MTCU operating allocations per funding-eligible student] will continue to drop over the next few years. After inflation, per-student funding has already been in decline since 2008-09.

Without MTCU enrolment forecasts for the next three years, it is difficult to be certain precisely how quickly or far the decline in per-student funding is likely to go. Taking what is known from last year and assuming the enrolment increase in for 2015-16 will be the same as for 2014-15, per student funding looks set to decline in each year, *even before inflation*.

In real terms, per student funding will fall by more than seven per cent between 2012-13 and 2015-16. It will be 14 per cent lower than it was at its highest point in 2005, and marginally lower than it was at its lowest point in 2002-03.

Operating Allocations as percentage of GDP

The trajectory of MTCU operating allocations looks no better when considered as a percentage of provincial GDP. The most recent high point in funding from this perspective was artificially inflated by the shrinkage of the provincial GDP in 2009-10 due to the effects of the financial crisis and subsequent recession. The economy has grown modestly since that time, but operating funding through MTCU has not kept pace.

By 2015-16, if current funding plans for universities are not changed and Ontario Budget 2013 forecasts for economic growth are borne out, the level of MTCU operating support to universities will have dropped to what it was in 2005-06 when *Reaching Higher* was first launched. In seven year, the Liberals will have completely undone their own investments in the system.

TUITION FEES AND STUDENT SUPPORT

Ontario Budget 2013 re-announces the new tuition fee framework policy that "caps" domestic undergraduate tuition fee increases at 3 per cent per year through 2016-17. For a student who started in the fall of 2012, this new policy will translate into a nine per cent increase, or four per cent after accounting for inflation as forecast in the budget. For domestic graduate students, the "cap" is now five per cent. After inflation, the increase is 3 per cent. A doctoral candidate who started will see their tuition increase by 16 per cent by the fourth year of their program, or 10 per cent after inflation.

International students who pay international tuition fees are not covered by the cap. To date, it appears that overall increases to international fees have followed much the same pattern as provincially regulated fees. However, under the so-called "international student recovery" announced in last year's budget, MTCU will begin reducing operating support for international students. The shortfall will be made up in higher international student fees. For the coming year, $12 million in lost government support for international students will need to be recovered through higher tuition fees.

Calculating student support on a per-student basis is difficult because of the number of different aid programs, with different rules for different groups of students. Crude estimate indicates that per student support has increased by about 16 per cent after CPI inflation.

CAPITAL FUNDING

The 2013 Budget re-announces $800 million in infrastructure funding. Ministry of Infrastructure (MOI) Building Together - A Progress Update 2012-13 indicates that $600 million of this amount has already been committed. MTCU staff indicated that there was no new money for capital projects, so we can assume that the $200 million not accounted for in the MOI report is for projects begun recently.

RESEARCH

The 2013 Budget had very little to say about research funding. A technical panel will be appointed to evaluate R&D tax credits for business, and a new pilot voucher program will be created to allow "entrepreneurs and small business to access innovation, productivity, and commercialization services offered by Ontario's research institutions." This presumably means universities, though few details were provided. We are concerned that this is essentially a funding transfer to the private sector, effectively encouraging business to utilize scarce university resources at a negligible cost. We will be monitoring this pilot program closely.

According to the Fall Economic Statement, the Ontario Research and Development tax credit was worth about $170 million in 2012. According to the Main Estimates, the Ontario Innovation Tax Credit and the Business Research Institution Tax Credit accounted for about $250 million.

PENSIONS

The 2012 Ontario Budget announced that it would continue promoting the pooling of assets for single-employer pension plans (SEPP), following the recommendations contained within *Facilitating Pooled Asset Management for Ontario's Public Sector* (otherwise known as the Morneau Report). The 2013 Budget notes that the government will continue to consult on the findings of the Morneau Report, and will set up a technical working group to provide advice on governance, design, and transition issues in 2013. We will continue working with the government to ensure that asset pooling is voluntary, and that the interests of our members are prominent in the discussion.

The 2013 Budget also reiterated last year's pledge to control the costs of single employer pension plans in the public and broader public sectors, emphasizing the need for these plans to move towards 50/50 cost sharing within five years. What is new is the government's stated intention to create legislation and regulations to permit the transfer of assets from single-employer pension plans to jointly-sponsored pensions plans (JSPP) for the public and private sectors and to allow the conversion of SEPPs into JSPPs if certain conditions are met. This legislation would apply to university plans, which are currently single-employer plans. There is no indication in the Budget regarding whether conversion of these plans will include past service benefits, or whether solvency funding will be eliminated, as is the case with current JSPPs. These details will apparently be revealed at a later date. The Budget also reiterated the 2012 commitment to consider regulatory amendments that will provide “additional relief of solvency funding obligations” for public and broader public sector SEPPs that “have taken action to put their plan on a sustainable track, such as moving to 50/50 cost-sharing.” It would appear that solvency relief is being used as an incentive to encourage SEPPs to convert to JSPPs. Finally, the Budget reiterates the government's commitment to developing a framework for single-employer target benefit plans (TBPs). Under target-benefit pension plans, there is no guarantee that a retiree's benefit will be paid. The plan's only obligation is to pay whatever benefit can be provided by the amount in the contributor’s pension account, similar to a defined contribution plan.

CONCLUSION

On the surface, the 2013 Budget contains little for higher education. However, it continues the austerity-focused measures announced in previous budgets, with the net result of reducing the amount of public funding available to universities. New restrictions on tuition fees will also reduce government revenue. While we are certainly in favour of controlling tuition fee costs for students, it is imperative that compensatory funding be provided to universities. This has not been done, and universities will continue to struggle with declining resources and increased enrolment. Neglect, it seems, is as toxic as interference.

The Budget also does little on the pension front, essentially re-emphasizing the government’s stated desire for reform. It does, however, provide some clarity on the government’s desire to introduce legislation that will encourage the shift from SEPPs to JSPPs. It also announced a new technical working group on asset-pooling and management. OCUFA is currently in the midst of a pension research project, and have argued that regulatory changes should not be made until the project is complete. So far, the government has respected this request. We will continue working actively with government to ensure that any reforms reflect the best interests of faculty associations and their members.

Overall, the 2013 Budget continues the long push for universities to do “more with less.” Unfortunately, in practice this only means “less” for students in terms of faculty interaction and quality facilities, while “more” student debt. This is a harmful situation, and OCUFA will be arguing hard for increased investment in universities over the coming years.