OCUFA Analysis of the 2012 Ontario Budget

INTRODUCTION

If at first you don't succeed…

The Liberal government's budget proposal for 2012 reprises some of the themes from Budget 2010, but with more ominous undertones. Looking at the budget documents, it appears that funding for post-secondary education and training will increase by an average 1.9 per cent over the next three years. That is more than the 1.5% annual increase proposed by the Drummond Commission, but it includes Ministry of Training, Colleges and Universities (MTCU) funding for capital projects, training and employment programs, and student support – including the tuition rebate which the Drummond Commission proposed eliminating. The funding most immediately germane to conditions for faculty and students alike – university operating grants – is set to increase by an average of only 1.1 per cent per year over the next three years.

The Ontario government proposes to increase the "envelope" of funding for enrolment growth while eliminating or reducing funding under other envelopes in order to fund enrolment increases while keeping funding growth below the rate of inflation. This budget does not increase resources for high-quality education; rather it shifts existing funding to support system expansion while doing nothing to invest in student experience.

OCUFA believes the only way to ensure high quality and affordable higher education in our province is to increase operating grants and invest in the future success of Ontario. We will continue to advocate strongly for this investment.

COMPENSATION

As we had expected, a major theme in the proposed Liberal budget is the need for "strong management of current and future compensation costs." The budget notes that restraining public sector compensation costs for five years is crucial to balancing the budget by the government's self-imposed deadline of 2017-18.

However, despite the rhetoric, the government has continued with the collective bargaining and compensation strategy that it has maintained throughout the recession budgets – tough talk but no legislative action for unionized workers. There is no wage freeze legislation contemplated by this budget, although the existing wage freeze for non-unionized workers and senior administrators will be extended for two more years.

Clearly, the government is satisfied with its strategy of "talking down" the settlement trends; it notes that much has been achieved through its approach over the last few years with public sector settlements now below the private sector, the municipal sector and the federal public sector.

With respect to broader public sector bargaining, the government expects the parties to "reach responsible settlements." There is a threat that if agreements cannot be reached that are consistent with the government's deficit elimination plan or in the face of "significant disruption", the government is prepared to propose "administrative and legislative measures." Whether this is referencing broad-based wage legislation, or situation specific back-to-work legislation, is not clear.

Interestingly, there are no targets in the proposed budget for what a responsible settlement might look like, unlike the net zero compensation increase target set in the 2010 budget. It appears the government is attempting to avoid the trap of failing to meet its compensation goals for the sector and leaving itself open to the kind of criticism it received from the Conservatives and media in 2010.

COLLECTIVE BARGAINING

As with the 2010 budget, there is no direct legislative intervention in the collective bargaining process, but we can expect university employers to once again use the restraint message in this budget to rationalize compensation concession demands in local bargaining.

The proposed budget picks up on the Drummond Report's theme of consolidation of bargaining in the broader public sector. The BPS Labour Relations Secretariat will be establishing a consultation process to "move toward greater centralization of bargaining over time, reducing transaction costs." Although OCUFA was told in the budget lock-up that the review would be done over the coming months, no definite time lines were given. The review will take a sector-by-sector approach.

The government is proposing to introduce legislation with respect to interest arbitration that will require written submissions, written rationales by the arbitrator when requested, decisions within 12 months, and, failing that, the power for the Ontario Labour Relations Board to issue a final award. This legislation **would only apply to those sectors with legislated arbitration, such as police and firefighters**.

PENSIONS

There are some troubling proposals in the budget with respect to university pensions. The government has decided that in principle employees should share equally in the "ongoing cost" of their pension plans with the employer. The government expects public sector plans to move to a 50-50 cost sharing formula for ongoing contributions within five years. It will adjust temporary solvency relief measures to encourage plans to move to cost sharing in the five year transition period and it will support efforts to convert plans to jointly sponsored pension plans.

The government intends to encourage the parties to make this move voluntarily, and the Ministry of Finance will be holding consultations with stakeholders to determine what incentives might work to bring this about.

While the budget notes that Employers would "continue to be responsible for plan deficits," it is not clear whether they are referring only to existing deficits, or to future deficits as well. Also unclear is whether "ongoing costs" refers only to normal service costs, or includes special payments. Finally, it is not clear whether in hybrid plans, ongoing costs include the funding of the minimum guarantee.

The government intends to introduce framework legislation in the fall of 2012 to pool the investment management functions of smaller pension plans. The budget does not specify who will manage the assets, but notes that it could be a new entity or one of the existing large public sector funds. The government will appoint an advisor to work with affected stakeholders.

It appears that the government has abandoned the idea of an open-ended review of the future of single employer BPS plans in favour of moving on several specific issues immediately – cost sharing, joint sponsorship and centralized asset management.

UNIVERSITY OPERATING GRANTS

According to the budget documents, total funding in the postsecondary and training sector is expected to rise by an average 1.9 per cent per year. Most of the increase is evidently in support of enrolment growth at universities and colleges and for the Second Career program. Some student grants are earmarked for elimination to offset the cost of tuition rebates, but the expense outlook for the next three years also “reflects measures to contain costs such as savings from efficiencies.”

The numbers need to be unpacked. First, total expense for MTCU includes operating and capital grants to universities and colleges, student support programs, and employment and training programs. For example, of the $7.2 billion in spending for 2011 proposed in last year’s budget estimates, $4. 9 billion was for operating transfers to universities and colleges, $0.3 billion for capital projects, $0.8 billion for student support, and $1.3 billion for training and employment.

Operating funding has the most direct impact on the quality of universities. According to MTCU, operating grants for universities will rise by an average of 1.1 per cent over the next three years. Using the same assumption for GDP inflation as in the budget forecast, operating allocations to universities **will actually fall two per cent between 2011-12 and 2014-15 in real terms**. Even if one accepts the government’s assertion that it is providing funding for enrolment growth, **the constant-dollar value of per-student funding will decline by 5 per cent over the same period.**

Second, cutting envelope funding from one area and reallocating it elsewhere does not increase the resources available to universities. In fact, such an action may reduce them. Envelope funding and operating funds are mingled in such a way that it is impossible to trace the funding from its nominal source to itemized expenditures. Some amount of cross-subsidization inevitably occurs. As a result, the shifting of envelope funding to support system expansion will actually increase the decline in inflation-adjusted funding per student by seven per cent over the next three years. This is on top of an estimated decline of seven per cent between 2008-09 and 2011-12.

Third, the increase in operating funding is front loaded. It is 2.2 per cent in the first year, 0.4 per cent in the second and 0.6 per cent in the third. The difference in the latter two years is found partly in reductions to operating support for international students. Most of the nominal increase in enrolment funding is offset by reductions referred to as “policy levers” in the budget addendum Report on Expense Management Measures. The savings expected from levers that are expected to “enhance innovation and productivity to support efficiency targets” amount to $40 million in 2013-14 and $81.0 million in 2014-15. The levers themselves are not identified, but it is hard to imagine how any of them may actually support the avowed goal of “quality education for students” if they include some of the trial balloons already floated in the policy community, such as three-year degrees, greater use of online education and year-round university programming.

TUITION AND STUDENT AID

Tuition policy in Ontario since 2006-07 has permitted universities to raise tuition by an average of five per cent per year. In the run up to budget day, the Ontario government announced the extension of the existing tuition policy for 2012-13. Before that, the Liberal government made good on its campaign promise to provide tuition rebates to qualifying full-time undergraduate students.

Eligible undergraduate students whose parents' combined earnings are less than $160,000 may apply for a 30 per cent tuition rebate. The current maximum is $1,600 for two terms of study per year, but the budget proposes to index the rebate, allowing it to rise at the same rate as tuition. According to documents distributed at the budget lockup, but not included in the budget documents themselves, the estimated cost of the tuition rebate is $222 million in 2012-13, rising eventually to $411 million in 2014-15.

Costs of the rebate are supposed to be covered by reductions in funding for "non-core" programs. The Ontario Textbook and Technology Grant and the Ontario Trust for Student Support are mentioned by name in the main budget document. Budget Estimates for 2011-12 show that the savings from eliminating these two programs would amount to $70.5 million. The addendum Report on Expense Management Measures indicates that the combined effect of reductions to student support would be $30.7 million in the first year, rising to $74.5 million in the third year.

UNIVERSITY CAPITAL FUNDING

In the wake of last year's budget, $346 million in funding was announced for new construction at Ontario universities. Facilities renewal funding has typically been well below the Council of Ontario Universities' (COU) estimate of funding required to maintain buildings in their current condition. The $17 million provided for 2011-12 is less than five per cent of the amount required according to the latest estimate, and the provincial government's current proposal offers no improvement.

There is no news on funding to build the three new campuses previously discussed by the government, and there is no indication that funding for current projects will be withdrawn. The budget documents indicate instead that postsecondary education is one of the priority areas where infrastructure spending will be focused. Savings are to be found by "realigning" funding for current projects to coincide more closely with construction timelines. Other savings are set to begin in 2015-16 resulting from a planned “reduction in unallocated funding.” It is not clear if that this amounts to a complete cancellation of funding for further expansion, or a partial cancellation and deferral.

RESEARCH FUNDING

Three rounds of funding under the Ontario Research Fund Research Excellence program were abruptly cancelled in late 2011. There are no further reductions to research funding indicated in the budget proposals. Rather, funding under the Research Excellence and Research Infrastructure programs of the Ontario Research Fund will be capped.

OCUFA did propose a way to restore and enhance funding for the Ontario Research Fund. The Drummond Commission observed that tax expenditures like research and development tax credits have a limited effect on business research and development activity and output. OCUFA therefore recommended that such credits be eliminated in favour of direct subsidies for university based research. In light of the continuing weakness of business investment, and the traditional role played by universities, OCUFA recommended re-directing those funds towards the restoring funding for the Ontario Research Fund. At best, the budget documents propose only to review the effectiveness of tax credits and seek advice from the to-be-established Jobs and Prosperity Council on provincial expenditures for research and development.

There is no indication of how the proposed council will be composed. It appears that its mandate will be limited to provide advice on increasing productivity and innovation in the economy. To that end, it is supposed to “leverage the experience of business, labour, academics and non-government organizations” and develop a research agenda. With much of the focus on restructuring the myriad of business support programs and consolidating them in a single fund, it is not clear whether this will supersede the *Innovation Agenda* released in 2008. The Next Generation of Jobs Fund was launched at the same time, and is scheduled to wind up as its current contracts are completed.

CONCLUDING COMMENTS

Ontario universities already have the lowest rate of expenditure per student in Canada and the worst student-faculty ratio. In real terms, per student operating funding from the province has been in decline since 2008-09. With this budget plan, the **cumulative reduction in per-student funding by 2014-15 will be 16 per cent**. There is no doubt about the difficult fiscal circumstances facing the province, but there can be no glossing over the implications of this trend in funding. Faculty members, academic librarians and other staff will be asked to do even more with even less. Solemn invocation of the need to preserve quality cannot wish away the declining student experience that is inevitable without adequate public funding.

There are larger consequences as well. Through frequent repetition, it has become a truism that innovation and improvements in provincial productivity are essential elements not only of economic recovery but of long term sustainability. Universities are essential institutions for that strategy – educating the students and generating the research that lays so much of the foundation on which innovation is built. Provincial funding for universities is an investment in Ontario's future.