

Funding the future: it's all about performance

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Ontario is revamping the formula that determines funding for its universities. While few specifics have been announced, there are strong signs that the province is shifting from a model based on enrolment numbers to one based on performance metrics. Faculty associations and university administrators are deeply concerned about what this means for the future of our institutions.

In March 2015, the Ontario Ministry of Training, Colleges and Universities (MTCU) announced a review of the university funding formula. Its rationale—that a system based primarily on headcounts is no longer appropriate given lower prospective enrolment growth—is unclear. Per-student government funding in Ontario is comparatively low (see Fig. 1), so if MTCU wishes to progressively increase funding despite declining enrolments, it has room to do so without appearing profligate, let alone generous. Nonetheless, since MTCU has committed to a review, it is important to understand how the present system works, and how it might change.

The present funding formula

The current funding formula dates back to 1967. With adjustments made for location-based and discipline-based differences in costs, each university receives funds in proportion to its enrolment. Over time, the shares have

been adjusted to allow for government-approved growth in particular programs and universities, but the change in any given university's funding share has been gradual. To prevent [beggar-thy-neighbour](#) enrolment policies, universities can only overshoot their prescribed enrolment target by three percent: any admissions beyond that are unfunded.

In 1996, the Ontario government made the disbursement of some

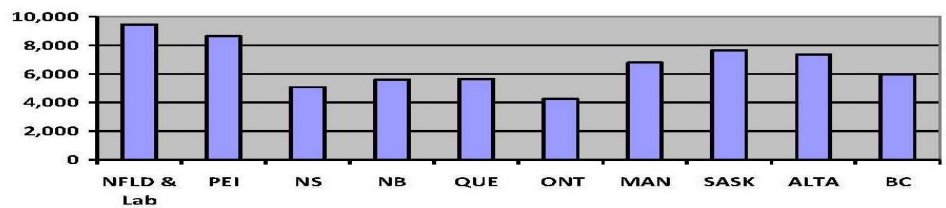
Meanwhile, the share of total university revenue from MTCU funding has fallen from 50 percent in 1990-91 to 27 percent in 2013-14. Smaller, primarily undergraduate universities are most reliant on MTCU funds, and are thus most likely to be affected by any changes to the system (see Fig 2).

What will the new funding formula look like?

MTCU has not yet revealed the new funding model. However, a

Figure 1: Per-student funding by province

Ontario ranks tenth out of 10 provinces in the amount of funds transferred to universities per (weighted) full-time equivalent enrolments.



Source: Data for this chart can be found in [Inter-provincial Comparison of University Revenue, 2012](#), Council on University Planning and Analysis and Council of Ontario Universities, p. 3.

funds contingent on performance. It withholds some funding until universities successfully report on their Multi-Year Accountability Agreements (MYAAs focus on class sizes, student satisfaction and retention). A smaller portion is withheld contingent on a university exceeding system benchmarks on graduation and employment rates. Altogether, performance-based funding comprises about four percent of MTCU university funding. To date, no university has failed to complete its MYAA or failed to meet the benchmarks.

recent study of funding models

released by the Higher Education Quality Council of Ontario (HEQCO) likely prefigures the Ministry's decision making. While ostensibly descriptive, this report advocates strongly for performance-based funding models.

The first performance-based model that the study considers is a fairly straightforward extension of the current system. Referred to as the *re-earnable portion model*, a larger share of each institution's funding is withheld each year,

contingent on meeting pre-negotiated objectives. What these objectives will be is unclear, but the report's author suggests they would go beyond the current MYAA benchmarks; in particular, universities would have to demonstrate that their students achieve certain learning outcomes *before* receiving full funding.

In the second model—the *competitive marketplace model*—universities receive funding based on their performance relative to each other. Basically, if WLU performs better on some government-chosen metric than, say, Ryerson, then WLU would receive more funds; if Ryerson did better than Brock, then Ryerson would get more funds than Brock. The hope is that in trying to secure the most funds, universities will strive to better themselves, and the general quality of university education in Ontario will improve. The HEQCO report suggests that the performance metric will encompass multiple factors, but offers little commentary about what these factors will be, much less about how they will be weighed.

Challenges of performance-based funding models

If Ontario chooses to move to a version of performance-based funding, it must design a suitable evaluation metric—a massive challenge, and one that is unlikely to produce desired results according to those who study the issue (see [“Further reading”](#)). Tying all university funding to performance—as one scenario in the HEQCO documents suggests—is unprecedented. In North America, most performance-based models tie less than 10 percent of overall government funding to performance. However, in Tennessee, where 75 percent of the funding is performance-based,

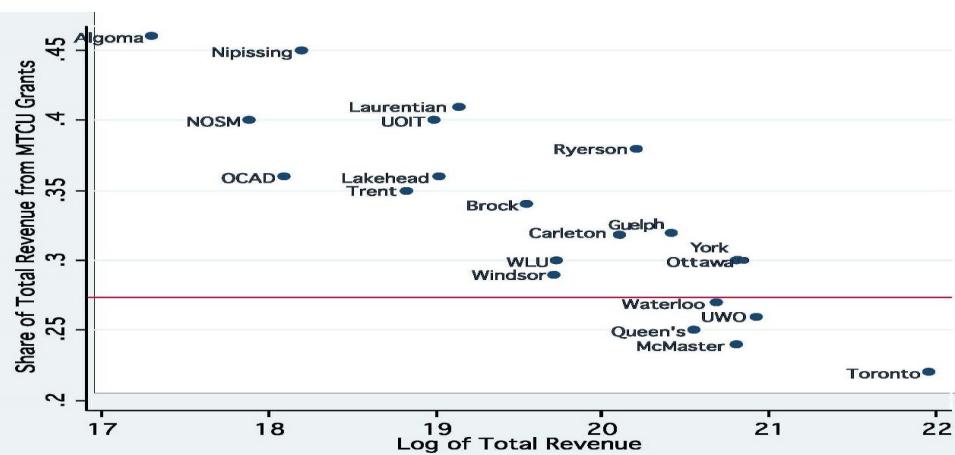
universities are evaluated on MYAA-type benchmarks. But the HEQCO report dismisses graduation and completion rates as suitable assessment measures, noting that Ontario universities are already very successful on these fronts. It then provides a glancing discussion of the Organisation for Economic Co-operation and Development's literacy and numeracy tests (known as PIAAC, or the Programme for the International Assessment of Adult

Education points out, even where performance-related funding was a small component of budgets, university actors were strongly motivated to meet performance targets; their failure to do so was thanks to a myriad of other factors. Notably, universities lacked the resources necessary to effect improvements.

Realizing significant improvements in education quality by moving to a performance-based funding system may require concomitant investments

Figure 2: Share of university revenues from MTCU operating grants

The smaller the university, the more reliant it is on government funding, and the greater the stakes it has in changes to the funding system.



Source: Data for this chart can be found in the [Static Reports, Guidelines and Highlights](#) published by the Council of Ontario Finance Officers.

Competencies) as an evaluative tool, but offers no evaluation of their suitability.

If the difficulty in designing appropriate metrics is not enough to give the provincial government pause, the evidence on performance-based university funding should be. According to HEQCO's own literature, most studies find that performance-based funding has had no effect on targeted outcomes. In most of the cases examined, the performance-based share of overall funding was small, so perhaps expecting a positive effect was akin to thinking that a small tail could wag a big dog. Yet, as [a policy briefing](#) for the Wisconsin Center for the Advancement of Postsecondary

in the universities. Given Ontario's already parsimonious levels of university funding, and the fiscal realities of the day, it is unlikely such investments will be forthcoming. The anticipated funding formula may simply generate a more complex funding system, in which universities expend resources jockeying with each other, with little measurable change in outcomes.

Laurier's administrators voice their concerns

The Administration at Laurier is also carefully watching the provincial government's deliberations about funding. It has provided the *Advocate* with the following commentaries: The [Laurier submission](#) to the province's Funding Formula Review, August 2015 and an [article written by Dr. Blouw](#) for the Ontario University Student Association's July 2015 edition of *Educated Solutions*.