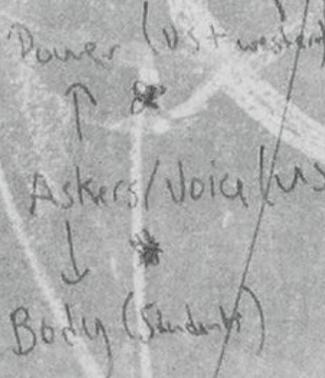


# FORMULATING CHANGE

## Recommendations for Ontario's University Funding Formula Reform

There might always be someone else to run a discussion group

There is no one else who can advocate for your collective needs as they evolve



tipping point of advocacy AND tipping point (?) in p.s. education = timely

Students = We  
Student Leaders

Admin = Advocate

# OUSAA

Ontario Undergraduate Student Alliance

# ABOUT OUSA

*OUSA represents the interests of over 140,000 professional and undergraduate, full-time and part-time university students at seven institutions across Ontario. Our vision is for an accessible, affordable, accountable, and high quality post-secondary education in Ontario. To achieve this vision we've come together to develop solutions to challenges facing higher education, build broad consensus for our policy options, and lobby government to implement them.*

# CONTENTS

<b>ON THE UNIVERSITY FUNDING FORMULA REVIEW</b>	<b>4</b>
<b>SUMMARY OF CHALLENGES</b>	<b>5</b>
<b>THE CURRENT FUNDING FORMULA: BACKGROUND</b>	<b>10</b>
<b>ENROLMENT-BASED FUNDING</b>	<b>12</b>
<i>Removing Growth Driven Incentives</i>	
<i>Funding Increases in Enrolment</i>	
	<b>13</b>
<b>PER-STUDENT FUNDING</b>	
<b>ADDRESSING COSTS</b>	<b>14</b>
<b>DIFFERENTIATION</b>	<b>16</b>
<i>Horizontal Differentiation</i>	
<i>Access and Regional Differentiation</i>	
<i>Student Support Services and Financial Assistance</i>	
<i>Differentiation and the New Funding Formula</i>	
<b>PERFORMANCE AND SPECIAL PURPOSE FUNDING</b>	<b>20</b>
<i>The Role of Enveloped Funds</i>	
<i>Increased and Reformed Performance Funding</i>	
<i>Health and Wellness</i>	
<i>Infrastructure</i>	
<b>QUALITY</b>	<b>23</b>
<i>Teaching and Quality</i>	
<i>Funding Quality</i>	
<b>UNIVERSITY-PROVINCIAL AGREEMENTS</b>	<b>25</b>
<i>Strategic Mandate Agreements</i>	
<i>Multi-Year Accountability Agreements</i>	
<b>TRANSPARENCY AND ACCOUNTABILITY</b>	<b>27</b>
<i>Zero-Based Budgeting</i>	
<i>Public Disclosure</i>	
<b>SUMMARY OF RECOMMENDATIONS</b>	<b>28</b>
<b>CONCLUSION</b>	<b>30</b>

# ON THE UNIVERSITY FUNDING FORMULA REVIEW

In early 2015 the government of Ontario announced that it would be conducting a review of the processes by which it funds universities. In order to best capture the needs of those that consume, deliver and fund higher education, the government has commissioned extensive consultation with parents, students, universities, employers, agencies, and sector experts. This submission will serve as a summary of the Ontario Undergraduate Student Alliance's contributions to those discussions, as well as a statement of our principles in the area of funding priorities that could benefit students.

4/

In order to guide this process, the team facilitating the consultation has prepared a consultation paper. The consultation process is organized around four main principles that Ontario would like to see preserved or enhanced through the resulting university funding formula. These pillars are:

- ENHANCING QUALITY AND IMPROVING THE OVERALL STUDENT EXPERIENCE;
- SUPPORTING THE EXISTING DIFFERENTIATION PROCESS;
- ADDRESSING FINANCIAL SUSTAINABILITY;
- INCREASING TRANSPARENCY AND ACCOUNTABILITY

While our presentation is not organized using these four pillars, we do seek to address each (or several) of these priorities with our suggestions. OUSA is committed to a deeper exploration of how we can enhance the student experience through the funding formula and believe that this review should seek to focus resources on quality as it moves away from funding models that are largely tied to enrollment growth. This review is certainly warranted, as the current university funding formula might not be prepared to weather certain current and coming challenges, and in many ways presents its own challenges to those above principles. The review recognizes that we, as a sector, need to do more to demonstrate our strengths and commitment to outcomes important to students and the province, particularly in an era of constrained resources.

The processes and systems by which Ontario's universities are funded can have a tremendous impact on the activities of those universities. Funding is a commonly used tool to incentivize behaviours desired by the government, and amendments to funding processes is a policy approach to accomplishing certain ends – whether temporary or ongoing.

The Ontario Undergraduate Student Alliance is very invested in the funding review process, as well as broader issues of funding and sustainability in the university system. There is only so much that can be solved, or that we can reasonably expect to solve, by means of the funding formula. However, there are important questions that we can ask ourselves, and ask the system, within the scope of this review. In each of the review's four pillars, there is room to address concerns about what universities are, how they embody value, and how we communicate that value to students and society at large.

We wish to highlight that this funding formula review should not be entirely isolated from the important factors that (though external to the formula) will nevertheless impact its success: in particular, this framework should be supported by efforts to provide long term funding predictability for institutions, the continued regulation of tuition, and efforts to understand and address cost inflation in the university system.

A final important principle is that this review exercise not be seen as an opportunity to remove funding that is currently in place in the university system. An anticipated decline in Ontario's youth population levels, and any resulting decline in university participation should not be an excuse to remove existing 'per-student' resources that already exist in the system. Instead, those resources should be used to enhance quality and innovation in a system that has had to compromise those things in past instances of constrained resources.



# SUMMARY OF CHALLENGES

## THE CURRENT FORMULA IS NOT ALIGNED WITH ANTICIPATED DEMOGRAPHIC SHIFTS

5

There is no doubt that part of the funding formula review is motivated by changing demographic trends and worsening patterns of access for certain groups. The current system provides almost all of its new resources in the form of a commitment to fund enrolment growth beyond 2011 levels. This has encouraged institutions to prioritize overall enrolment, and has created a level of competition that might not be necessary. However, since the number of youth in Ontario is projected to decline as the province experiences the end of the “post-boom echo”, the province will have to grapple with a formula that is largely predicated on enrolment and enrolment growth. As student demands concentrate in the GTA, the system will have to absorb increasing competition and scarcity of student-tied resources outside of high growth census areas. If the province hopes to maintain university access as a priority, and to tie competitive resource allocation to access, then they will have to explore the opportunities and challenges of supporting non-traditional students, including students from underrepresented groups, mature students, those retraining, or those coming from other post-secondary systems.

Changes to the university funding formula should focus on underrepresented groups, recognizing that in some cases the participation of these students has lagged behind general increases to enrolment, as well as acknowledging that their participation has significant socio-economic benefits but might require extra per-student resources.

## THE CURRENT FORMULA DOESN'T ENHANCE DIFFERENTIATION

With research funding and enrolment representing the most responsive funding mechanisms in the system, some might argue that universities have been encouraged to pursue a degree of isomorphism. Institutions competing relative to each other in pursuing popular research, disregarding any existing foundation or interest in an area of research forces ill-equipped schools to imitate institutions that might be better geared for research success.

Similarly, when it comes to competition for students, institutions are cautious in positioning themselves as different in a meaningful way, as funding tends to follow the greatest amount of students. While they certainly try to position themselves as better than others, they often draw upon their strengths as a “comprehensive” institution, or otherwise try to capture as broad a student audience as possible. A funding formula where one of the only student-focused metrics is a nose count increase will limit institutional differentiation by encouraging as broad an appeal as possible to future students. Notable in its absence then are funding mechanisms that could encourage universities to diversify while being able to maintain their funding share, or funding that incentivizes differentiation through adherence to provincial priorities or their own negotiated strategic plans.



## THE CURRENT FORMULA DOES NOT DO ENOUGH TO CONTROL COSTS

As it stands now, the funding distributed by the government is generally divided between funds that are for a distinct purpose or because particular criteria were met (sometimes with some sort of reporting or accountability requirement) and funds that can be used towards whatever needs the institution deems appropriate. Just under 80% of the funds given to universities fall under this latter category. It is important that some degree of institutional flexibility be preserved to meet each institutions particular need, but as the mechanisms are exercised now, the province has comparatively little control over goal setting and priorities at institutions. This might be contributing to greater discretionary spending on priorities that are not in line with student and government priorities.

## THE CURRENT FORMULA IS NOT ACCURATELY REFLECTING TRUE COSTS

At the heart of the funding formula is a mechanism based on the premise that it takes different kinds of resources to educate different kinds of students. This is not an objectionable approach - however the current system is one that has been in place for nearly 50 years, and may not have been an accurate reflection of relative educational costs even at the time of implementation. Further complicating this approach is the fact that adjustments to these weightings have been made to meet public policy outcomes over the years. For example, the recent reduction of government grants for bachelor of education students, or an increase in grants for computer science students during the height of interest in information technologies in the early 2000s. OUSA is not necessarily against utilizing funding mechanisms to encourage ends beneficial to students and the province. However, this malleability demonstrates that fidelity to the actual cost of educating a particular student in a particular program is not necessarily the only purpose of these weightings.

Universities have developed involved, and sometimes delicately balanced, systems of cross-subsidization using the grants delivered through weighting mechanisms. The very fact that cross-subsidization is happening supports concerns that these weightings are not representative of actual costs, as there would be no need to do so if educational costs were accurately reflected. This practice also adds to difficulties in determining how money is spent by institutions, and how to best meet the resource needs of particular students.



## THE CURRENT FORMULA DOESN'T DO ENOUGH TO SPECIFICALLY PROMOTE QUALITY

The funding formula, as it is now, provides for roughly four percent of government funding to be given as ‘performance funding’ - distributed based on progress, or planned progress, toward certain outcomes. Other portions of the funding allotment are delivered through ‘Special Purpose Grants’ (SPGs) that are intended for specific projects or activities, often tied to some kind of accountability mechanism. These aspects of the formula provide something of a foundation for directing funding to quality-enhancing initiatives or specific outcomes, but they could be expanded or better utilized. Some performance funding, for example, is awarded to institutions for their relative performance in the areas of graduation rates, employment, and student loan default rates. These measures are not necessarily representative of an impactful experience during a student’s education, and in some cases may not really be in the control of an institution anyway. There are some other attempts to enhance quality through funds associated with a series of reports on things such as the presence of co-operative education programs, participation of underrepresented students, and class sizes. These measures focus attention on some outcomes that are more closely tied to quality, but the funds are rarely (if ever) withheld - offering little incentive to do more than simply report on the current state of these things.

## THE CURRENT FORMULA IS NOT AS ADAPTABLE AS IT SHOULD BE

As it is now, it is difficult to make changes to one aspect of the funding formula without impacting another. There are some challenges for institutions that are small, having a hard time expanding enrolment, or do not have a program mix that allows them flexibility with resources – as it is a common practice to subsidize some programs with the grants allocated to others. Some institutions are compensated for this challenge through certain special purpose grants. However this speaks to ways in which the system may have some structural blind spots for institutions that are ill-equipped for enrolment increases, were experiencing abnormal enrolment trends during years when funding benchmarks are set, or have a mix of programs that do not allow for cross-subsidization. Further, this has contributed to a large and complicated safety net of special purpose grants for institutions struggling with the fundamental mechanisms of the formula.

# THE CURRENT FUNDING FORMULA: BACKGROUND

Ontario's funding formula is largely laid out in the Operating Funds Distribution Manual and its associated amendments and appendices. These documents also do a good job of summarizing the historical changes to the university funding formula. This historical context is helpful considering the complexity of the funding formula and the numerous amendments, programs, and artifacts it has collected over the past five decades. Still, the Operating Funds and Distribution Manual is not an easily accessible entry point for those looking to familiarize themselves with university funding mechanisms. We have attempted to provide a succinct description of the funding formula below.

Ontario's funding formula can be broadly described as an "allocative" funding model. What this means is that the formula is used for allocating a more-or-less fixed amount of funding. In Ontario, the government determines the amount of funding that the Ministry of Training, Colleges and Universities will have in a given year, and then the funding formula distributes this amount in a way that is considered fair.

This is markedly different from a "determinative" formula, in which the total amount of money the government should spend is determined by relevant calculations – for example, program costs and required per-student funding. While the use of determinative formulas is rare, Ontario does have some history in this area. The initial funding approach was largely based on universities' demonstration of the funding they required and the province's decision to meet that or not. In order to simplify the process, the province implemented a more automatic procedure for annual funding allocation, but this revision still largely let the formula drive the determination of total funding.

Over time, in order to control costs and ensure some predictability for the government, the formula has been increasingly used to divide a fixed amount of funding, with a small portion providing basic per-

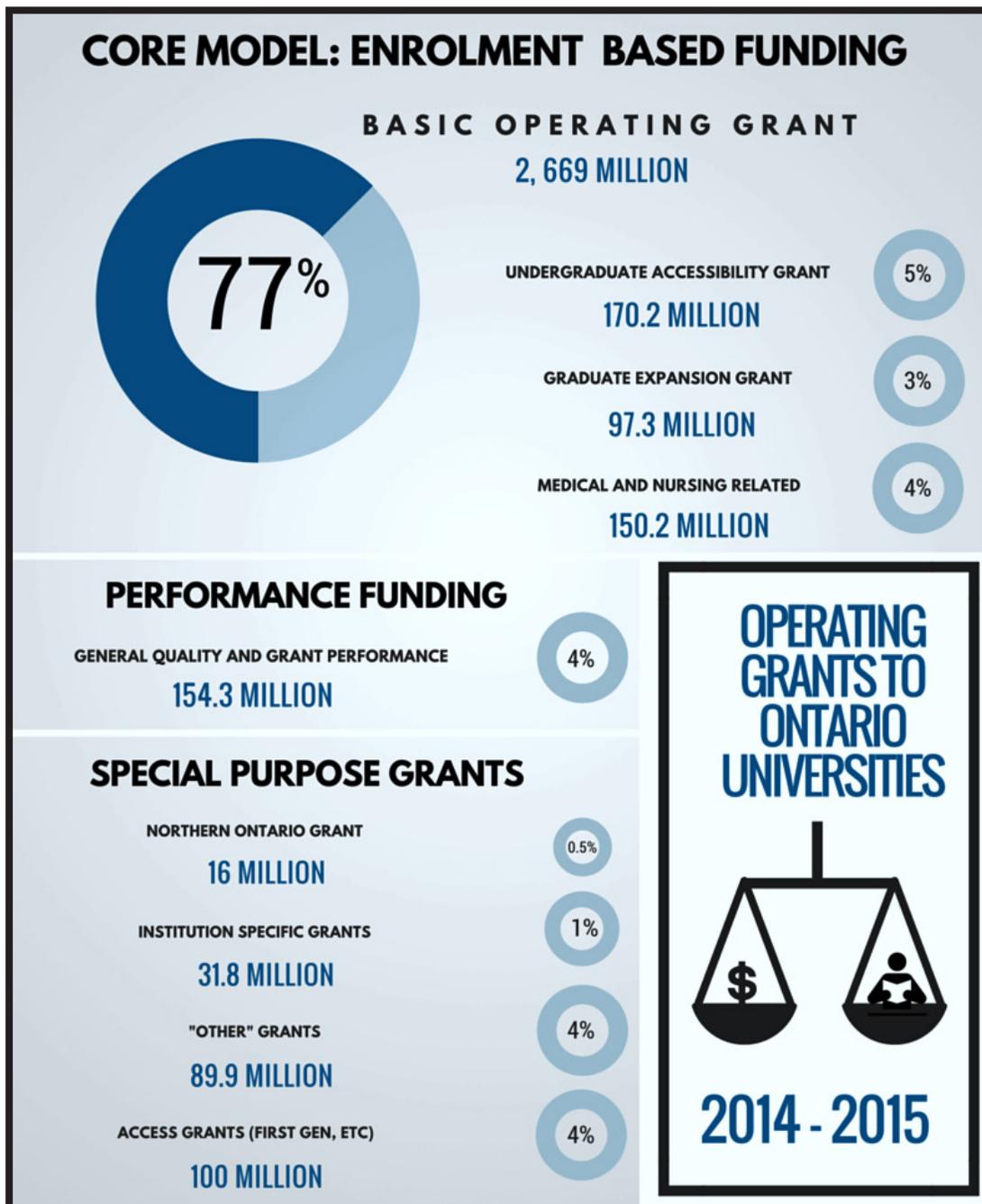
student funding for new students. As it stands now, institutional funding is generally calculated by first determining the fixed costs of the system. These fixed costs include a predetermined per-student amount for any student populations above 2010-11 enrolment levels; funding to encourage university performance against specific metrics; and the amounts required for 'special purpose grants' – which are funds with a fixed delivery amount that are allocated for a specific program or purpose, such as financial supports for health, vulnerable populations, schools with unique missions, and so on. The amount required for fixed costs is then subtracted from the general funding that has been allocated to the Ministry of Training, Colleges and Universities for any given year. What remains are the funds available for universities' Basic Operating Grants.

Basic Operating Grants comprise about three quarters of the funding given out to universities and the allocation of these operating grants is a complicated process. Essentially, the amount of funding available is divided by the amount of students in the system, with per-student amounts given in different proportions depending on the program a student is in. This system 'weights' the amount given to an institution for each student in a way that recognizes the different costs of educating students in different programs. This system of weights has largely been the same for almost 50 years, but there have been some slight modifications made to incentivize universities to offer expanded (or reduced) access to certain areas of study. The most notable examples occurred in the late 1990's and early 2000's when students in computer science and engineering were temporarily given higher weightings and more recently, the weightings for students in teaching programs was reduced in response to the apparent oversupply of Bachelor of Education graduates.

The Basic Operating Grant, as mentioned, comprises the largest portion (77%) of the funding given to universities. Generally, these funds are unrestricted

thus supporting whatever costs needing to be met by individual institutions. However, most elements of the funding formula, as detailed in the figure below, come with restrictions on how funding can be earned or spent. Most notable are the three pools of enrolment based funding and the General Quality Grant and Performance funds. The enrolment funding is awarded to institutions for growth in certain undergraduate programs, new graduate spaces, and programs for which the province is the largest employer – for example, medicine, nursing, and education. This is awarded in a very direct per-student way, but like the Basic

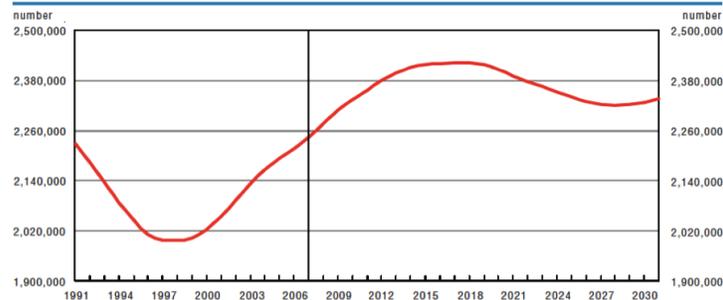
Operating Grant, can be spent by the institution on any of their operations. Performance based funding is earned when an institution reports on activities or programs the government wants to incentivize, and the improvement of these things. This amount is fixed, and given proportionally based on individual institutions' performance against pre-determined measures. The final broad elements of university funding distribution are the nearly 80 Special Purpose and Other Grants mentioned above. These grants are created for particular purposes, programs, or circumstances, and as such, can only be used to fulfill the purpose for which they were given.



# ENROLMENT-BASED FUNDING

FIGURE ONE

Population age 17 to 29, Ontario, 1991 to 2031



Note: Population estimates as of January 1st.  
Source: Statistics Canada (2005), *Population Projections for Canada, Provinces and Territories 2005-2031*. Catalogue no. 91-520-XIE.

For years, it has been a public policy priority to expand access to post-secondary education for Ontario's youth. To do this, the province has been providing funding to support new students beyond 2010-11 enrolment levels. Most universities have relied on growth-oriented funding and tuition, as guaranteed revenue sources, in order to meet their rising costs. In fact, the growth-oriented funding 'envelope' has largely been the only source of funding increases from the government for the last few years, with the exception of certain special project grants.

In order to address sustainability, the university funding formula will have to recognize that enrolment based funding is vulnerable to demographic volatility. Nearly half of the province's universities—particularly those in rural and northern areas—are currently experiencing, or will be experiencing, declining enrolment. Some institutions' difficulties attracting students will be compounded by the addition of new university campuses in the Greater Toronto Area, as planned through Ontario's Major Capacity Expansion policy. Increased competition for a greater share of fewer students will require more human and financial resources, constraining institutional costs even further.

From a design perspective, demographic projections already represent a challenge for the system and the funding formula. As it stands now, the formula guarantees a 'floor' in the basic operating grant money made available to institutions; if an institution's enrollment should drop to 2010-2011 levels or below, then they are guaranteed to receive funding equivalent to what was granted in that year. Statistics Canada's demographic projections through to 2031 (Figure 1, seen right) anticipate a plateau in youth aged 17 to 29 beginning in 2015, continuing for several years, followed by a decline of nearly 100,000 individuals. While the population will rebound, it is not expected to return to peak levels within the two decades—or even to the levels of 2010-11.

While we recognize that the current system of enrolment-based funding has incentivized the sector to meet the demands of a new economy and establish Ontario as a leader in innovation, we should also recognize that this growth oriented formula has yielded some perverse results. Since the overall number of students has increased, it has often meant universities have to commit fewer resources per student in order to offset their own rising costs. This has resulted in some savings through economies of scale, increased class sizes, the consolidation of programs, or sometimes, service reductions.

The attainment of higher education has tangible personal and social benefits, and, as such, the province should be applauded for its goals around broadly increasing access. However, a 'nose count' approach to enrolment funding has not addressed increasing gaps in educational attainment for students from underrepresented groups. This indicates that there may need to be a more nuanced approach to any growth oriented funding in the system that recognizes that additional resources are needed to attract students from underrepresented groups and support them throughout their education.

## REMOVING GROWTH DRIVEN INCENTIVES

As argued above, funding approaches whose primary incentive is enrolment are vulnerable to changing patterns of demand, have perverse outcomes, or are not necessary given the large portion of university revenue derived from tuition. These difficulties are no doubt contributing factors motivating the university funding formula review. Addressing the central means by which universities are given core operating funding must be a part of the review process—certainly as much as (or more than) any mission related funding, special funding envelopes, or project funds.

A formula should establish minimum funding for institutions for set periods. The current funding formula calls for predetermined minimum funding in the event that a particular institution has their enrolment fall. In the future, similarly predictable contingencies must be in place for institutions that experience declining resources due to changing enrolment. This is not to say that all institutions should be kept open or kept at a certain capacity if there is no demand, but this recognizes that universities have commitments – both human and material – that are not immediately responsive to changing demographics.

Going forward, managing the changing student population is going to be an important pillar of the strategic mandate process, the funding formula, and broader strategies for the university system. It is time that we move away from enrolment growth as the principle funding source for institutions. Those that do wish to grow should make those decisions in concert with the province and in recognition of local demographic trends.

Ultimately, this funding review will have to consider whether or not it is appropriate to build on a largely ‘per-student’ model of funding. While financial resources will ultimately be related to the number of students being served by a particular institution, the sometimes reckless expansion of enrolment in order to increase available resources has meant that universities over-enroll—despite decreasing per-student expenditures—in order to break-even. Moving forward, universities should have resources commensurate to the agreed upon strategy for that university.

***Enrolment levels should be negotiated between universities and the government, and should be sensitive to demographic realities.***

***Universities should have some degree of guaranteed enrolment based funding.***

***Universities should project, and attempt to adhere to, enrolment as part of a corridor.***

As part of this strategic approach, universities should project (or have access to projections about) reasonable local student demographics as well as projected enrolment growth or decline. These trends, and a funding commitment to support those students, should be negotiated between universities and the provincial government as part of individual strategic mandate agreements. Universities should then be expected to manage enrolment within a corridor around those projected trends. Should an institution experience enrolment of more or less than a certain percentage above and below that number, they will not have funding made available to them for those students. Should they remain within those corridors, they will have predictable and consistent funding. Universities should have to renegotiate the centre of that corridor every time they renegotiate a new Strategic Mandate Agreement. They should also have the ability to seek concessions on the centre of the corridor in extraordinary circumstances: such as a drastic change in available populations, the closing of significant programs, or drastically altered enrolment patterns.

## FUNDING INCREASES IN ENROLMENT

Resources, and per student funding, have historically lagged behind enrolment growth as institutions provided less (physical space, resources, small classes, etc) in an effort to maximize the impact of the money that was made available through tuition and from the government per-student. With enrolment as the primary measure tied to funding, and with enrolment growth as an explicitly emphasized goal—as the current formula offers a framework of incentives for growth—universities’ populations have exceeded the system’s capacity. Space for students is at a premium and resources per student have become scarcer.

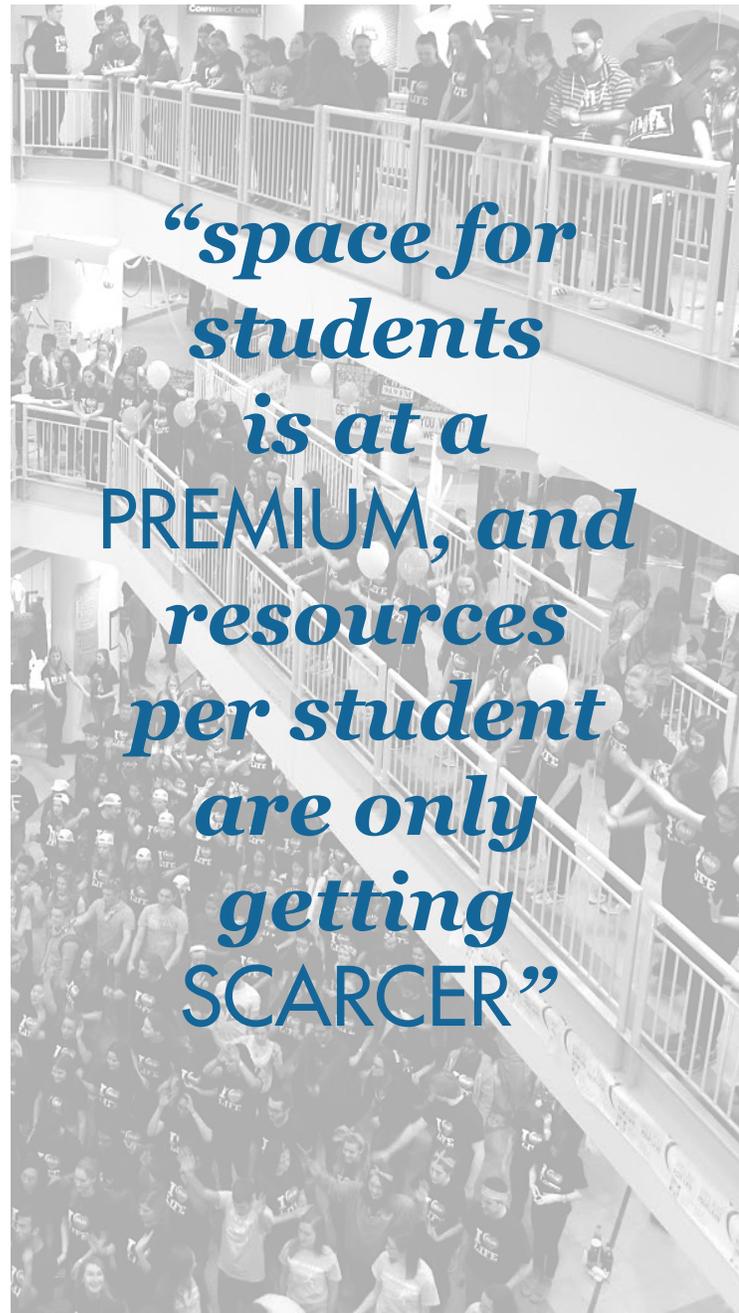
Some contend, as part of this review, that enrolment-oriented funding may not even be necessary. While any growth in student populations will necessarily have to be funded—as costs will obviously increase with an increase in students—it no longer needs to be the principle (often the only) source of increases to the general operating funds. With tuition and student fees comprising more than 50% of revenues system-wide, incentives to grow will remain.

OUSA recommends maintaining *at least* the resources currently in the system despite possible declining enrolment is critical in offsetting the effects of attempted economies of scale and addressing Ontario’s per-student funding, which is the lowest in the country. Some consideration for the size of student populations at institutions will still have to be given, but universities should no longer be encouraged – as they are now – to chase enrolment in order to secure the bulk of their funding.

***Funding should be provided for approved enrolment expansion in tandem with high standards of student experience.***

***Enrolment should always include scaling student resources, services, and value accordingly.***

Any remaining elements of funding tied to growth should consider, and ensure, access to quality resources, infrastructure, services, and spaces. If Ontario is going to continue with any growth-oriented agenda, resources have to be made available to make sure that those discrepancies are not widened at the schools that are growing. It is incumbent on the government to ensure that any built-in, enrolment focused incentives are counterbalanced by incentives to promote quality and capacity.



**“space for  
students  
is at a  
PREMIUM, and  
resources  
per student  
are only  
getting  
SCARCER”**

# PER-STUDENT FUNDING

While Basic Income Units (BIUs) can largely be considered a ‘per-student’ funding approach, it does highlight the fact that in some cases, it may cost different amounts to educate different students. The merit of this approach is debatable, as the different weightings that define the BIUs are largely the product of the 1960s. Any changes that have been made since then have resulted in layers of policy that better reflect past priorities than current ones.

Current BIU weightings are divorced from the real differential costs between educating students in different programs. As mentioned earlier, however, it is generally acknowledged that certain programs are being used to subsidize other ones. Universities have found ways to make the system workable through horizontal transferring of revenues and careful balancing. This practice indicates that BIUs are not doing what they are expected to do: provide resources appropriate to the costs of specific programs, and appropriate to fund an individual student’s education.

While OUSA recognizes that it would be challenging to ask institutions to throw away the systems they have built surrounding BIUs, the effect of these complex systems is that how actual costs and revenues are spent in each program area is unclear, as the funds flow laterally once they enter the system. Though this practice may be effective, it clouds costs and expenses within each program area, and is neither transparent nor accountable.

Going forward, the government will either have to embrace or entirely dismiss the argument that different programs warrant differential investments. If this argument remains, then the implementation of the differentiation framework and the development of flagship programs are going to necessitate that these weightings become more accurate, as cross-subsidization will become a less viable option and remains fundamentally opaque. Moreover, any BIU system going forward should incorporate measures that promote and incentivize program quality rather than program size.

Regardless of what approach the province opts to take regarding BIUs and whether to keep them in the formula, OUSA encourages the government to make several structural changes.

***BIUs should not make a distinction between students enrolled in general programs and those enrolled in honours programs.***

The cost differential between these two standings is negligible, and from a funding perspective, the difference is artificial. Only when there is a concrete and tangible difference in the experience of these students – such as when enrolled in an exclusive advanced course, or engaging in a capstone project – should there be such a distinction made in BIU weighting. In the interest of making BIUs simpler, easier to manage, and easier to track:

***The government should consider establishing average BIUs for all areas of study.***

This would not only realign funding with actual costs, but would reduce the need for overly complicated cross-subsidization. Average BIU weights should also be devised for areas of graduate study.

In keeping with earlier suggestions to make BIUs more cost- and quality-oriented:

***‘Flagship’ programs should be exempt from any new BIU averages that are devised.***

Keeping these specialized or defining programs separate provides guaranteed government funding for what will likely amount to higher-cost, more resource-intensive programs. An unrestricted BIU value will encourage the use of this type of innovative programming without placing the cost burden on students. If these programs were consistent with SMAs and other strategic priorities, such an exemption would support differentiation as well as quality.

# ADDRESSING COSTS

All of the university system's stakeholders need to engage in a serious discussion about living within our means. The discussion should be conscious of the cost pressures and commitments in universities that cannot be altered quickly. Unfortunately, this review will not consider inputs (such as government grants and tuition) nor will it consider certain expenditure categories (such as collective bargaining) within its scope. However, there are ways to alter the basic operating grant that can seek to address some of these pressures.

One of the most significant costs, both overall and as a portion of all new funds invested in the system, remains salaries and benefits. In the 2013-14 school year, salaries and benefits comprised roughly 77% of all university expenditures – about \$ 6.4 billion in that year. This proportion has increased by two percent over the last several years, and has maintained a consistent proportion of increases in overall funding as well, as the system received an additional \$1.4 billion in revenue over that same period, with just over \$1 billion of new spending going to salaries and benefits.

The division of those expenditures between administrative and academic personnel is largely even: 48% for academic ranks; 42% for 'other salaries' – which is generally administration, service providers, and facilities staff; and 9.5% for other instruction and research (largely graduate students and contract academic staff). The sources of cost inflation in each of those areas are different however. In the area of 'other salaries', costs have largely risen through the addition of administrative staff, service providers, and facility workers. For academic ranks, there has been a much slower expansion of personnel in that category – costs are instead driven by salary increases for existing workers that are above revenue increases thus maintaining a growing proportion of the salaries and benefits line. The remainder, 'other instruction and research', has maintained its share

through the expansion of graduate and contract employment to supplement the stagnant teaching loads of the academic ranks.

While it is out of the scope of the funding formula, this is an important time in which to address issues like tuition, government grants, and collective bargaining, all of which are impacted by and impact the framework. Any spending up to, or beyond, that which is made available by the government must

either be met by cuts to programs and services, or through tuition increases.

As students, OUSA is against further tuition increases given the long history of tuition rising above the earning increases experienced by students and their families, and the already significant proportion of education paid for by students. Further, the current high cost, high financial aid approach is inefficient. Loan remission and debt management programs present unnecessary additional costs to government while doing little to reduce perceived upfront costs for

students. Where possible then, this funding formula review should encourage universities to restrain their spending.

***Growth in certain types of expenditures should be capped at a fixed proportion of overall increases in revenue growth.***

OUSA suggests two approaches towards this end:

The first, further expanded upon later in this paper, is that any institution committing to any agreement – service, staff, or otherwise – above the current or projected revenue must publically disclose where those funds will be realized – be it through service or program cuts, increased class sizes, or staff layoffs.

Second, OUSA suggests that salaries and benefits be capped at a fixed proportion of expenditures.

***“OUSA is against further tuition increases given the long history of tuition rising above the earning increases....and the already significant proportion of education paid for by students.”***

Should revenues increase, so too can expenditures related to salaries and benefits. OUSA suggests that that proportion not exceed a (to be determined) percentage of expenditures; the province may want to consider capping either growth in expenditures beyond a certain benchmark year, or cap a percentage of expenditures as a total. For those institutions that are hiring, or have recently hired teaching focused, tenured or equivalent, faculty, the percentage of expenditure devoted to salaries and benefits may rise to a greater proportion for a limited time. Should salaries and benefits exceed that cap in any given year, and should that institution be unable to point to an unexpected decline in revenue, then the Ministry of Training, Colleges and Universities should withhold funds equal to the overage from the basic operating grant.

Alternatively, the province may want to consider reinstating some form of the Quality Assurance Fund. This was a fund that was intended to be used to support initiatives that improve quality and student experience – including the costs associated with hiring and training new faculty and academic staff. It was in place from 2003 to 2008, and distributed around \$75 million per year to institutions. In 2008 this fund was rolled into the un-restricted basic operating funding. The province may want to consider reinstating the Quality Assurance Fund, or similar program, in order to section off funds to be used only for the hiring of new faculty or student service employees.



# DIFFERENTIATION

Differentiation can take many forms and it should be noted that students favour *moderate* differentiation. In this case, moderate differentiation means that it is important to ensure institutional diversity in Ontario's university system and to allow for areas of specialty to succeed while still providing a high quality education across the board at every university.

The concern with overly emphasized differentiation is that areas of specialty become too dominant and the focus on other programs diminishes. This leads to decreased quality and funding, and to a breakdown of comprehensive and varied course offerings at each institution. The competing demands of increasing specialization and maintaining comprehensive slates of programs must be balanced with the implementation of any new funding formula.

OUSA is hesitant to specify a minimum slate of program offerings, but asks that experts in the area consider a standard that:

- allows students to experience major areas of study within each significant faculty or area of study;
- enables students to qualify for most post-graduate programs within Ontario; and,
- ensures students have access to what are normally complementary majors and minors

Institutional autonomy is an important factor when determining the level of differentiation at each institution. The institutions themselves are keenly aware of the specific needs of their student population and faculty, as well as their role in meeting those needs. That said, there is a place for government involvement in the overall, high-level design of the higher education system, especially in the context of achieving differentiation.

Currently all institutions are competing for the same pools of funding. Having a one size fits all approach forces universities to undertake activities that they might not be well suited for in order to secure

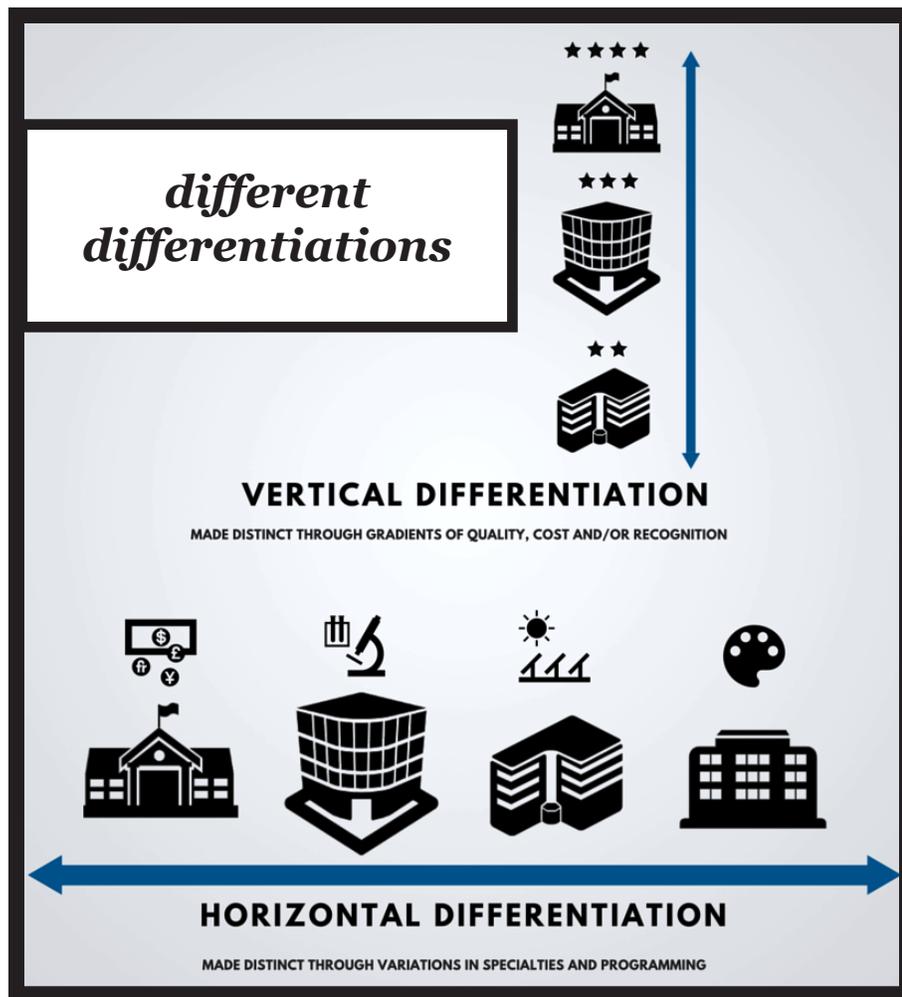
funding. This is further exacerbated if there are only one or two types of funding increasing in any given year (i.e. enrolment). This can create problems for institutions not naturally positioned to pursue these pools of funding, and can distract them from other areas where they excel. This creates a tremendous waste of resources in a system that cannot afford it, as institutions pursue activities beyond their current strategies or capacities in order to access increased funding. Students believe that universities should be allowed, encouraged, and adequately funded to offer specialties, in-depth programs, and pursuing unique mandates in addition to comprehensive slates of programs and course offerings.

OUSA believes that there is value to encouraging certain forms of differentiation. A new funding formula could incentivize this as long as differentiation is horizontal, takes into account regional and geographic circumstances, and maintains access and student support services across the board.

## HORIZONTAL DIFFERENTIATION

For students, horizontal differentiation is preferred over vertical differentiation in our post-secondary system. Our universities should not be ordered hierarchically; they should instead be coordinated in a system composed of institutions with a diversity of missions and mandates, none of which should be seen as better than any other.

In a system of horizontal differentiation, the post-secondary sector should look to establish 'flagship programs' across all universities in different areas, to provide students with an opportunity to delve into a subject area and come away with a high level of understanding, engagement, and application. This is in contrast to vertical differentiation where an institution would be considered the 'flagship university' of the province—and as such, the university all other universities emulate—creating a clear hierarchy.



Alberta’s “Six Sector Model” provides an example of horizontal differentiation in practice. This model places the province’s 26 post-secondary institutions into six distinct and equally valued categories, three of which contain universities. Universities are categorized as either: Comprehensive Academic Research Institutions, Baccalaureate and Applied Studies Institutions, and Independent Academic Institutions. The other three categories are Polytechnical Institutions, Comprehensive Community Institutions, and Specialized Arts and Culture Institutions.

While even the perception of creating a hierarchy through differentiation can be difficult to manage, the government can avoid this with a disciplined and transparent approach. The province will fare better with a strong network of universities, opposed to having one or two institutions that are perceived to be elite. Institutions should be able to play to their strengths and funding should be allocated based on those strengths while also maintaining a publicly funded broad course offering.

### ACCESS AND REGIONAL DIFFERENTIATION

It is a well-established fact that geographic distance to a post-secondary institution is one of the major barriers to accessing university. When coupled with the possibility that the nearest institution may have specialized away from a student’s program of choice, significant access challenges are created. Students believe that a differentiated system should account for geographic distance as an access barrier when negotiating differentiation and specialization with individual institutions. In order to do so, the government must assess whether an alternative university exists within a reasonable distance and whether or not, when considered together, the institutions offer students a comprehensive set of course and program offerings.

Differentiation should not proceed to the extent that a student who is not free to travel across the province cannot access their preferred program at the nearest institution. Specialization will occur and is welcomed, but general, comprehensive education must continue to exist for every region in Ontario.

If a model is adopted whereby a full range of degree and program offerings are not available within a reasonable geographic distance, some students may be prevented from studying in their preferred field. This is a particularly important consideration for students living in rural, Northern, or Aboriginal communities.

## STUDENT SUPPORT SERVICES AND FINANCIAL ASSISTANCE

In Ontario's *Differentiation Policy Framework*, the government signaled that the profile of institutions' student populations, for example the proportion of Aboriginal and international students that an institution enrolls or the proportion of an institution's enrolment that receives OSAP, are areas where differentiation can be explored.

While not necessarily a function of the funding formula itself, the Ontario Student Assistance Program should recognize potential impacts on students' financial circumstances. The program should recognize the potential for different institutional funding arrangements—for example, different tuition caps for 'prestige' programs—or students' increased need to travel to attend institutions offering their preferred areas of study. The aid system needs to be flexible enough to enable students to attend an institution for the education they want, not for its location or cost. This flexibility could be demonstrated by loan limits that match the true cost of tuition and include resources for getting to (and living in) a particular city.

All students, especially those who identify with underrepresented groups, must be about access strong supports and services regardless of the institution they attend. The pursuit of differentiation

should not push the quality of student experience to the periphery. The formalization of a policy that encourages institutions to differentiate based on student population might create challenges for students as well as these institutions. Having an institution that emphasizes student financial assistance or aims to provide a high level of support to a particular underrepresented group is not necessarily a bad thing, but we should avoid situations where individual institutions are meeting more than their share of the provinces need in these areas.

OUSA is concerned by the province's use of financial assistance or student supports as a potential axis of differentiation in the differentiation framework. We feel that supporting underrepresented or economically disadvantaged students is a responsibility of the system as a whole. Students do not believe that the differentiation of student services or student supports should be implemented. A student should never have to choose attending an institution that specializes in supporting their demographic or attending an institution that has the specialized degree program they are interested in. Quality of the student experience should be maintained as a high priority for all students, regardless of institution and regardless of differentiation.

## DIFFERENTIATION AND THE NEW FUNDING FORMULA

OUSA believes that the moderate level of differentiation appropriate for Ontario's university system will not sufficiently address the funding and sustainability pressures currently present in the system. All the tinkering and increased efficiency in the world cannot maintain the current system financially without increased basic operational

funding from the province and greater controls on compensation. Differentiation is not the sole solution to issues of financial sustainability. That being said, we should not shy away from using a new funding formula to encourage moderate differentiation and to increase efficiency in our university system.

In order to encourage certain forms of differentiation with the new funding formula, OUSA recommends:

***Using the new funding formula to provide special purpose grants on an application basis to universities to fund specialization efforts; and,***

***Using the basic operating grant to provide steady and predictable funding to all universities so they may offer comprehensive and broad course offerings.***

Establishing a set of special purpose grants for areas of specialty at each institution while providing a steady base operating grant to maintain a broad course offering would financially support what each institution excels at while also supporting all programs. This would encourage moderate differentiation across the system and having institutions apply for funding in their areas of specialty would respect institutional autonomy, and avoid centralized and forced differentiation.

***Consider using a different formula for different types of universities.***

Horizontal differentiation in Ontario’s university system could discourage the use of a one-size-fits-all funding formula and encourage the categorization of universities into equally important, but distinct, groups of institutions. Ontario’s 20 universities have

different mandates and provide different educational experiences to their students, even though they are all placed into the same category of ‘university’ and are allocated funding through the same formula. A new funding formula—or a set of formulae—could incentivize different mandates by allocating funds within each category of university differently.

***Use the funding formula to encourage differentiation within regions or clusters of universities.***

Students encourage differentiation within regions of the province or within clusters of universities. The funding formula can do this by providing universities with special purpose grants for areas of specialty, even if the funded area of specialty is already funded at another university outside of its region or cluster.

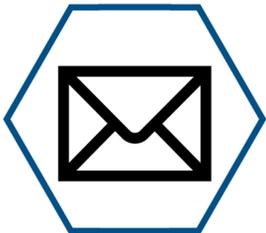
While it is a laudable goal to remove duplication in the system, taking an approach that assumes all Ontario universities are competing for the same pool of prospective students is too simplistic. For example, it would make little sense to disallow Lakehead University in Thunder Bay to pursue an area of specialty because the University of Windsor is already pursuing the same thing. Geographic distance is a huge determinant of which university a student will attend, so we shouldn’t deny students living in Northern Ontario an opportunity to pursue an area of study simply because a university in Southwestern Ontario – a university that these students will likely never consider attending – is already offering a program in that area.

# PERFORMANCE AND SPECIAL PURPOSE FUNDING

20 /

We acknowledge that universities are hesitant about the use of purpose-allocated funds due to concerns about the reporting burden and the continued funding for all programs. OUSA stresses the need for flexibility in the funding system, especially given the numerous institutions to which it will apply. The 20 publicly assisted universities vary drastically in character, ranging from enormous urban hubs to remote institutions catering to small populations, or largely aboriginal students. A one-size-fits-all approach is bound to have certain weaknesses and blind spots. Special purpose funds—while they should be pared down from the 80 or so that currently exist—should remain on the table as a means of strengthening weaknesses and eliminating blind spots.

Special funding envelopes remain an important tool in ensuring that certain priorities are, and remain, funded and are protected from other cost pressures. One method to avoid the proliferation of small, hard to manage funds is to ensure that special purpose grants are earmarked for broad, system-wide or region-wide, quality purposes that could be pursued at many institutions. Many of these funds could focus on supports to improve access for proportionally underrepresented student groups, to renew Ontario's universities' ability to pursue certain equity goals, and to provide additional support to any universities that face logistical challenges, such as those in remote or northern locations.



## THE ROLE OF 'ENVELOPED' FUNDS

Funds 'enveloped' for specific programs should continue to be used to support and incentivize system-wide programs and behaviours.

OUSA would like to see supports for underrepresented groups, health and wellness, credit transfer, and other student success oriented initiatives mandated and pursued through enveloped funding.

The reporting burden associated with enveloped funds can be an inconvenience for institutions. However, if the reports associated with special purpose funds are slimmed down, standardized, and amalgamated as OUSA suggests, this important accountability practice might be made easier. With reduced reporting burden, enveloped funding may be a more attractive option to universities.

Enveloped funding is essential to accountability practices. Money that is targeted towards certain aims can be monitored directly, reported on, and evaluated for future years. It is a critical lever when implementing policy, and enables robust evaluation of the effectiveness of proposed solutions. While institutions should not be punished if efforts on any given goal are unsuccessful, it is important nonetheless to encourage innovation and experimentation. Dedicated funding packages are essential to clear and consistent evaluation.

Entirely unrestricted funds, though efficient for administrations, do not promote accountability and transparency. If the government intends its funding formula to promote accountability and become a component in a stewardship relationship with universities, some funding envelopes are essential.

## INCREASED AND REFORMED PERFORMANCE FUNDING

If the revised funding formula is to meaningfully promote quality and an enhanced student experience, the province should examine current levels and standards for performance funding. OUSA agrees that universities should have incentives to pursue certain targets, and unreasonable failure to achieve, or make real strides towards, those targets ought to result in consequences.

***Performance funds should comprise a greater proportion of operating budgets,***

***Measures should be expanded beyond current performance indicators.***

Currently, performance funding accounts for a very small percentage of universities' grants from government, and an even smaller percentage of their overall revenue. At 4% of government funding for universities, performance funding is less than 2% of a university's operating fund. At current levels, it is a negligible amount, and its impact is profoundly limited. Performance funding should increase, as a proportion, to at least 10% of an institution's government funding if it is to be of sufficient size to incentivize or influence university decision-making.

Moreover, the measures of performance should be revised. The current Key Performance Indicators (KPIs)—which define and provide metrics for performance—leave room for improvement. Post-graduation employment and loan default rates are not outcomes that universities have a great deal of control over, and while universities can influence graduation rates, it has been argued that they may be motivated to lower academic standards to inflate this figure. These KPIs constitute a fairly narrow view of performance, with little regard to the quality of education or value to students.

OUSA proposes that in addition to increasing the amount of funding that can be rewarded for performance, the KPIs be replaced or at least expanded. In particular, a KPI focusing on student satisfaction is greatly needed. The National Survey of Student Engagement results, if collected and disclosed consistently across the province, would be a natural basis for this component. Other potential quality-focused KPIs could touch on metrics such as instructor-to-student ratios, average or median class sizes, and others. Performance metrics that reflected agreed-upon targets from each institution's SMA could also be devised.

Finally, OUSA urges the government to ensure that any performance metrics featured in the funding formula are meaningful and carefully deliberated. While these should feature prominently as a component of any funding strategy in several areas, it is important that they are the result of extensive consultation—involving student voices—and focus on ensuring student success.

## HEALTH AND WELLNESS

Physical and psychological well-being are among the most critical factors in a student's academic success. Adequate and comprehensive healthcare must be provided in the funding formula if it is to play a part in ensuring a quality student experience. The onset of most mental health problems and mental illnesses occurs during adolescence and young adulthood; it is likely, then, that many individuals will have their first experiences with these things while in university.

Ontario is also experiencing increasing amounts of students transitioning into university with a mental illness, due to increased diagnosis and supports in the primary and secondary levels. The campus community must be equipped and required to acknowledge, respect, and address the needs of this large number of students.



Failure to provide mental health support on campuses has the potential to compromise student access, retention, and success.

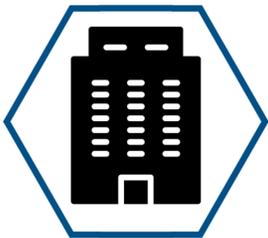
***A portion of universities' operating grants should be earmarked as a grant for this specific purpose.***

Healthcare funding should move with students and remain with them even as they relocate for their education. Host-communities could improve planning and resource allocation if more accurate ways of tracking and accounting for students were explored. We also need to look at how students interact with the healthcare system, including how the 'rostering' of students between their home healthcare and university healthcare options can be best integrated.

***The government can signal a commitment to these strategies by including universities and colleges as an important facet of the next iteration of Ontario's Addictions and Mental Health Strategy.***

Funding for healthcare services ought to be specific and significant. Though currently the only sizable grants outside of the basic operating grant are program centric, if the government wishes to prioritize the quality of experience for students, a 'well-being grant' would be appropriate. Additional mental health resources

## INFRASTRUCTURE



Approximately 65% of useable space in Ontario universities is over 30 years old. This creates challenges when dealing with modern class sizes or the radically increased number of students on campus in general, leading to drastically less space-per-student than was originally intended. Old classrooms and lecture halls may lack the infrastructure needed to be adapted to new classroom technologies and learning styles; moreover, they may not be fully accessible to students with disabilities.

The province should ensure that institutions move towards more sustainable maintenance practices. However, resources should be provided to allow institutions to increase space-per-student; to modernize classrooms to accommodate greater numbers of students, and advances in teaching practices and learning styles; and to ensure physical accessibility for all students across campuses.

***A portion of the operating grant should be earmarked for quality-focused infrastructure projects.***

Up to 1.5% of the system-wide current replacement value should be made available, and enveloped, for maintenance on all buildings. Further, all buildings on campus, not just academic spaces, should be eligible for provincial capital funds. The province should also devote additional funds towards a Deferred Maintenance, Retrofit and Upgrade Matching Fund to encourage private donations in order to address accumulated deferred maintenance that cannot be met by the 1.5% maintenance fund above.

Institutions seeking to expand enrollment must prove that they have capital plans equal to the task and prove that they are investing in those space strategies. The province must consider capital expansion as a component of responsible enrollment and provide resources to meet the capacity obligations of approved institutions.

# QUALITY

There continue to be concerns, articulated by nearly every stakeholder, around the quality of students' educational experience. However, in an era of constrained resources, institutions experience difficulties exploring new initiatives. In order to address stakeholders' concerns, while supporting the principle of sustainability, we should look at how we can best utilize existing resources in support of quality and student experience

## TEACHING AND QUALITY

Average teaching loads per faculty have been declining over time, while the expansion of full time faculty has slowed. Increasing class sizes, student to faculty ratios, and reliance on contract academic staff have been used to fill the gap. These measures are having a negative impact on student experience. The reliance on precariously employed contract academic staff at Ontario's universities is particularly concerning. Across the system, contract staff are becoming responsible for more and more of the teaching duties in the province. Some estimates have as much as half of the teaching done in universities as being done by part-time, contract staff, whose transience and job insecurity prevents them from forging lasting relationships with their students and limits the hours they can devote to students outside of their working hours. Moreover, non-tenure track faculty are often less experienced in their field, have less experience teaching, and are often under-compensated, reporting lower levels of job satisfaction. The fact that many part-time instructors are balancing multiple jobs at various institutions only deepens this problem in many cases. This growing trend has a profound impact on the student experience and is unsustainable. The funding formula should address this problem by:

### ***Limiting the amount of funding that can be spent on contract academic staff.***

Institutions should track how many of their teaching hours are being conducted by contract staff and negotiate a limit with the government beyond which funding is not available. Contract instructors should be used as a supplement to full time professorship positions, or a temporary role for new and aspiring professors. The use of contract academic staff should

not be a permanent offloading of teaching duties nor a long-term cost saving measure for universities. Enveloping the funds available for contract academic staff would ensure that institutions remain accountable for their choices surrounding instruction and staffing complements and that students receive the benefit of teachers who are present, available, and satisfied with their positions.

The funding formula might encourage some improvements to these circumstances while simultaneously providing some efficiencies. Financial controls that establish an average teaching load among full time faculty should be explored. By providing rewards for exceeding expectations or penalties for going below, the government can begin to restore teaching quality through the funding formula. Any established average teaching load in excess of the current system average will result in improved cost sustainability for the system, in addition to enhancing the educational experience for students.

## FUNDING QUALITY

Presently, the Basic Income Unit (BIU) system ensures that institutions maintain funding on a per-student basis. As a result, institutions have invariably sought to increase student enrolment, achieving economies of scale where the marginal costs of additional students decrease and BIU amounts can provide additional funding.

There may be room in the BIU system to promote not just the quantity of students, but the quality of their experiences. Whether current BIU weightings remain or whether they are revisited to more closely align them to modern costs, minor adjustments could be made to the weights when students are receiving

a demonstrably high quality experience that goes beyond traditional lecture-based learning. Best practices in pedagogy, such as experiential learning or other high impact experiences can be worth a portion of a BIU. For example, an Arts student may be worth 2.0 BIUs, however students enrolled in an Arts program that guarantees high impact, high quality experiences could be adjusted to 2.5 BIUs. Such an approach could be added on to any number of systems of BIU weighting, and could be conceived of as a quality focused BIU modifier, rather than as the primary purpose of BIU weighting, which could instead remain a cost-oriented model.

OUSA has long advocated that interested students be assured of the opportunity for high-impact learning experiences during their studies. A high-impact learning experience is one in which a student 'learns by doing' tasks related to their academics in an environment that allows for structured learning and critical reflections. These experiences allow for students to apply theoretical skills and insights to real-world, contemporary applications. Similarly, this allows professors and even students to bring such practical examples into the classroom in an impactful way.

Undergraduate Research Opportunities (UROPs) are an approach that OUSA has supported in the past. UROPs are opportunities for students to perform research in return for credit after proposing and receiving approval for their plans from an assignment supervisor. Teaching and research are stronger when undertaken together, but often the research component of universities is isolated from the undergraduate experience. Incorporating UROPs into existing programs could be worth a modification of that program's BIU value, as an incentive and support for the quality-oriented nature of such an initiative.



***BIUs, or any other per-student funding measure, should provide additional resources for students in high-impact learning environments.***

What will be accepted as a BIU-fundable quality measure should be agreed upon by government and individual institutions. Stakeholders will need to debate whether or not to include these quality measures as a part of differentiation. Additionally, the measures for which institutions receive BIU adjustments must be supported by evidence that demonstrates their value.

As the system has moved past the original circumstances and original calculations to determine BIU weightings, universities have had to intricately balance the various costs and revenues with shortfalls or surpluses between programs. Recognizing that administrators will be reluctant to make any major changes to a system that they have carefully balanced, or will require a BIU system that allows them to maintain stability, minor adjustments such as these could keep existing systems mostly intact; universities would simply receive extra funding for any program that instituted greater high-impact, high quality learning experiences.

# UNIVERSITY-PROVINCIAL AGREEMENTS

## STRATEGIC MANDATE AGREEMENTS

OUSA considers the Strategic Mandate Agreements (SMAs), signed by Ontario's universities and the province, to be a step in the right direction. Students will be well-served by planned direction for the future with an eye towards moderate specialization that increases efficiency and allows the growth of specialty programs while maintaining student choice across the province.

So far it is not entirely clear how much of an impact the SMAs will have. In its reform of the funding formula, government should be mindful of ways to incorporate the SMAs to ensure that they are important and embedded components of the university system. Most importantly, considerable funding needs to be tied to the goals set out in the agreements. Successfully pursuing the measures and goals set out should be rewarded.

These documents have the potential to serve as strong foundations not only for consistent system-wide planning for universities, but also for considering how funding might best support differentiation through these agreements. Policy and funding must align with the agreements themselves as well as the principles behind their implementation.

OUSA also feels that the SMAs provide important platforms to enforce oversight and concrete, realistic expectations of universities. The new funding formula should allow for SMA-aligned funding to encourage the implementation of systems that will be conducive to the sustainable and lasting prioritization of systemic goals. Therefore, OUSA recommends that:

***Substantial funding should be tied to the fulfillment of SMA priorities in any new funding formula.***

***Strategic Mandate Agreements should be used to set metrics for performance-based funding and as tools for operationalizing the differentiation framework.***

There is room to conceive of SMA adherence as the

performance aspect of performance-based funding. Though that envelope, ought to include student-experience focused measures, it can also be structured to reward institutions for differentiated goals in alignment with their strategic direction. This would greatly incentivize meaningful and differentiated performance, and would also cement the SMAs as integral planning and accountability mechanisms within the funding formula. This would also reduce the difficulties of looking for "one size fits all" metrics for all 20 institutions by allowing for some level of flexibility in what each university can claim as good performance.

OUSA believes that the SMAs should become more prominently emphasized in the funding formula, and that future renegotiations of the agreements can be undertaken with such an understanding. Should SMAs be situated prominently as mechanisms for differentiation and performance measurement, OUSA also urges the government to ensure that any long-term planning initiatives be undertaken only with meaningful consultation with, and input from, students.

***Student input should be requisite and structured into the process of re-negotiating and developing SMAs, including the mandates' role in funding and long term planning.***

The government should take care not to allow this to go the way of the MYAAs, where the granting of funds became a matter of routine. If an institution lists a commitment to a metric and a plan to achieve it, failure to achieve targets should be cause for question. Also, the funding tied to the fulfillment of SMA priorities should be substantial enough to garner strong institutional commitment to achieving these priorities. The Ministry should investigate institutions who fail to hit their targets to determine the cause of any shortcoming and whether or not additional expertise and resources might have resulted in success. There should be a consistent process and timeline for such investigations.

## MULTI-YEAR ACCOUNTABILITY AGREEMENTS

The multi-year accountability agreements (MYAAs) provide reporting for useful figures and information that the sector will continue to wish to track. They also encourage a degree of improvement, or planned improvement, toward those measures. However, as a strategy and planning tool, there is little indication to suggest that they have been effective. For this reason, OUSA recommends that:

***Multi-year Accountability Agreements be removed from the funding formula. A portion of universities' operating grants should be earmarked as a grant for this specific purpose.***

MYAA funds were intended to be awarded when the report-backs indicated sufficient effort or progress towards the goals in the agreement. However, these funds have been awarded every time despite widely divergent levels of detail in reporting. MYAAs have become, in essence, paperwork guaranteeing automatic transfers with no real strategic purpose. While MYAA reporting should continue for the sake of accountability, given that the funds associated with them have never been withheld—and are unlikely ever to be withheld—it is clear that they have little role to play in a stewardship and incentive-focused funding formula. There should no longer be any funding granted for fulfilling this basic reporting requirement.

For the strategic agreements to be meaningful and fulfill their potential as strategy and planning tools, there must be funding levers tied to them. Since they detail aspirations and performance metrics, the SMAs are more deserving and better positioned as accountability tools than the MYAAs.



# TRANSPARENCY AND ACCOUNTABILITY

## ZERO-BASED BUDGETING

University budgets are often the product of past budgeting exercises – budget considerations often start from what the previous year’s budget looked like. It is often the case that departments and individuals feel compelled to ‘spend up’ to the amounts of previous years in order to justify that level of funding. However, these lines are often the result of years of gradual build up, past special projects, or past priorities. In the case of Ontario universities, where so much of funding and budgetary frameworks have remained unchanged for decades, despite dramatic change in the sector, this practice only serves to artificially inflate costs.

In these situations, it is sometimes helpful to go through a zero-based budgeting exercise. In this approach, budgets are planned starting at zero and based on what a department or faculty can reasonably expect to spend. Planners ignore last year’s funding, and consider as accurately as possible what it would take to operate for a year. This exercise potentially saves funds that have been unnecessarily spent or inadequately allocated.

***A requirement for institutions to regularly undertake a zero-based budgeting exercise should be included in the funding formula.***

Admittedly, this is a time and resource intensive process and as such, it may not be appropriate to annually budget starting at zero. However the government should expect that universities undertake an exercise like this, institution-wide, with some regularity. This would allow universities to naturally shed elements of their budgets that are relics of other times and that have no longer serve an existing purpose. If the system as a whole is to be accountable, it is important to take measures such as these to make sure that waste, and false impressions of real costs and expenditures are reduced.

## PUBLIC DISCLOSURE

OUSA agrees with the notion that transparency and accountability compose a profoundly important pillar of the university system. Concordantly, there should be little tolerance in the system for reckless spending. It is not the intention of OUSA to discourage investment, innovation, or risk-taking. Rather, our intention is to insist that any planned spending which will knowingly be in excess of revenue must be accompanied by a clear plan to make up the debt.

It is not in the spirit of accountability to allow universities to spend more money than they will receive then quietly expect students to correct the deficit by paying ever-increasing tuition and ancillary fees. For the sake of transparency and accountability:

***Universities should be required to publicly and explicitly outline their intentions when spending exceeds revenue.***

This would hopefully encourage the creation of well-developed cost-management plans. While OUSA is aware that there are already significant reporting requirements for some funding elements—such as mission specific envelopes or special purpose grants—there are still many unanswered questions around how tuition and the basic operating grants are spent. It is important, therefore, that the funding formula reform process foster a culture of accountability and transparency in spending, not just earning.



# *summary of recommendations*

## **ENHANCING QUALITY AND IMPROVING THE OVERALL STUDENT EXPERIENCE**

Funding should be provided for approved enrolment expansion in tandem with high standards of student experience

Enrolment should always include scaling student resources, services and value accordingly.

Supports for underrepresented groups, health and wellness, credit transfer, and other student success oriented initiatives mandated and pursued through enveloped funding

A portion of the operating grant should be earmarked for quality-focused infrastructure projects

Limiting the proportion of institutional funding that can be spent on contract academic staff

BIUs, or other per-student funding measures, should provide additional resources for students in high-impact learning environments.

---

## **SUPPORTING THE EXISTING DIFFERENTIATION PROCESS**

Enrolment levels should be negotiated between universities and the government, and should be sensitive to demographic realities.

Flagship, or defining, programs should be exempt from any new BIU averages that are devised.

Use the new funding formula to provide special purpose grants on an application basis to universities to fund specialization efforts

Consider using a different formula for different types of universities

Using the funding formula to encourage differentiation within regions or clusters of universities

Substantial funding should be tied to the fulfillment of SMA in any new funding formula.

Strategic Mandate Agreements should be used to set metrics for performance-based funding and as tools for operationalizing the differentiation framework.



## **ADDRESSING FINANCIAL SUSTAINABILITY**

Universities should have some degree of guaranteed enrolment based funding.

Growth in certain types of expenditures should be capped at a fixed proportion of overall increases in revenue growth.

Using the basic operating grant to provide steady and predictable funding to all universities so they may offer comprehensive and broad course offerings.

---

## **INCREASING TRANSPARENCY AND ACCOUNTABILITY**

Universities should project, and attempt to adhere to, enrolment as part of a corridor funding approach.

Basic Income Units should not make a distinction between students enrolled in general programs and those enrolled in honours programs.

The government should consider establishing average Basic Income Units for all areas of study.

Performance funds should comprise a greater proportion of operating budgets.

Measures should be expanded beyond current performance indicators.

Multi-Year Accountability Agreements be removed from the funding formula. This type of reporting should be required from universities without being tied to funding.

There should be a requirement for institutions to regularly undertake a zero-based budgeting exercise included in the funding formula.

Universities should be required to publicly and explicitly outline their intentions when spending exceeds revenue.

# CONCLUSION

This funding formula review has been a welcome discussion around the strengths and ambitions of the university system in Ontario. OUSA is pleased to have been able to contribute and want to thank Sue Herbert and her team for recognizing the importance of having the student voice in this process. Further, it has been heartening to see the student educational experience as a key priority in this project. OUSA hopes that the recommendations contained in this submission help inform the suggestions that will arise from the University Funding Formula Reform Project. While we do not present a complete funding model, we attempt to address each of the consultation questions with principles and considerations where we cannot offer a complete design solution.

30 /

We want to impart that this project is a commendable, and important, step taken by the province to ensure that the university system will continue to thrive and offer its considerable social and personal impact for Ontarians. However, we also would be remiss without repeating that this is a first step, and that the impact of the funding formula will be best realized if it is supported by policy decisions outside of the funding formula scope; such as tuition, differentiation, financial assistance or the overall amount of funding being distributed.



**ONTARIO UNDERGRADUATE STUDENT ALLIANCE**

26 Soho St, Suite 345

Toronto, M5T 1Z7

**t:** 416.341.9948

**w:** [www.ousa.ca](http://www.ousa.ca) **e:** [info@ousa.ca](mailto:info@ousa.ca)

PRESIDENT: *Spencer Nestico-Semianiw*

EXECUTIVE DIRECTOR: *Sean Madden*

DIRECTOR OF COMMUNICATIONS: *Jasmine Irwin*

RESEARCH ANALYST: *Danielle Pierre*

RESEARCH ANALYST: *Zachary Rose*

OPERATIONS COORDINATOR: *Armin Escher*

RESEARCH INTERN: *Amy Zhou*

**RECOMMENDED CITATION**

Madden, S, Rose, Z & Escher, A. (2015). *Formulating Change: Recommendations for Ontario's University Funding Formula Reform*. Toronto: Ontario Undergraduate Student Alliance.

