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PUBLIC SERVICES FOR ONTARIANS: A PATH TO SUSTAINABILITY AND EXCELLENCE

Chapter 7: Post-Secondary Education

In this increasingly global marketplace, post-secondary education (PSE) remains a vital asset for Ontario, as over two-thirds of all new jobs in the province are expected to require PSE. The province's economic growth and competitiveness will need to rely considerably on the ability of the post-secondary system to continue offering high-quality education, while accommodating significant enrolment increases.

Ontario's PSE system has produced impressive results despite significant challenges. In 2009, 63 per cent of Ontario adults had completed some PSE, the highest such rate in the member countries of the Organization for Economic Co-operation and Development (OECD).

In addition, both universities and colleges combined have absorbed a 36 per cent increase in enrolment since 2002–03. Part of this increase has been the result of demographics, but it has also been fuelled by an Ontario strategy aimed at improving economic competitiveness. The government recently committed itself to raise the post-secondary attainment rate to 70 per cent by 2020.

It is also notable that, even with greater enrolment growth, more students are completing programs. Between 2002–03 and 2009–10, degree completion rates increased from 73 per cent to 79 per cent in universities and from 57 to 65 per cent in colleges.

The quality of Ontario's post-secondary system is high, from both a Canadian and international perspective. International rankings have recognized the province's institutions and programs for the quality of education they provide. Those same institutions, particularly universities, compete not only for students, but also for the best faculty to maintain excellence in the sector.

However, to meet the challenges of rising demand for higher education at a time of constrained funding, the post-secondary system will need to become even more efficient.

Challenges Ahead

Post-secondary education in Ontario will face significant pressures to meet five critical demands: educate a rising share of the population; help equalize economic and social outcomes across the population; provide an important component of lifelong learning; be an engine of innovation; and deliver quality education in an efficient manner.

With enrolment projected to increase by an average of 1.7 per cent through to 2017–18, about one of every six adult Ontarians will be enrolled in the province's public post-secondary institutions. The existing system has demonstrated the flexibility, capacity and willingness to accept more students. But its funding levels — from provincial grants and tuition combined — are the lowest in Canada, and an inevitable result of rapid expansion has been some loss in quality: more sessional instructors, larger classes, fewer projects, less contact with professors and so on.

Aside from enrolment growth, the PSE sector faces other challenges. Ontario provides its universities and colleges with the lowest per-student provincial operating grants in the country; they are lower today on a per-student basis than they were in 2006–07 for colleges and in 2007–08 for universities. This reduction has occurred while the institutions' costs have been rising by three per cent to five per cent. Just to keep the system operating as it does now, post-secondary institutions will need both more funding and more efficiency.

To offset these costs, universities have relied on revenue from tuition fees, which are largely regulated, and interest from endowment funds and private term-limited donations, which are now depressed by low interest rates. "University administrators have coped with cost inflation through two strategies: expanding class size, and/or increasing the proportion of teaching done by part-time instructors [some of] who do not do research."¹ In addition, the full costs of research have been covered by funnelling operating funding towards innovation.

In this knowledge-based era, education and innovation will be the key for Ontarians to be prosperous. But for Ontario to succeed in the competitive global economy where many other jurisdictions are improving their educational systems, Ontario graduates will need much more than a simple handle on facts and figures. The value added by a PSE must increasingly be the ability to think critically, to express those thoughts clearly, and to adapt and apply knowledge to new areas and tasks. Experience in using ever-changing technology is also integral to students' preparation for the workplace.

Such challenges, combined with government spending constraints, will require our post-secondary institutions to adopt a holistic approach to dealing with these daunting issues.

¹ J. Clark, D. Trick and R. Van Loon, *Academic Reform: Policy Options for Improving Quality and Cost-effectiveness of Undergraduate Education in Ontario*, 2011, McGill-Queen's University Press, p.18.

Need for Clear Objectives

A key target for the government has been to increase attainment rates. The government's Reaching Higher plan — a \$6.2 billion cumulative investment in PSE to improve access and quality — has contributed to success in meeting that target. Through Reaching Higher, over 200,000 more students, including 60,000 more apprentices, were pursuing higher education in 2010–11 than in 2002–03.

However, there is no coherent, purposeful plan that extends beyond attainment or addressing the parts as opposed to the whole system. Because the government's formula for allocating grants to post-secondary institutions has tied funding to enrolment growth, it follows that enrolment growth has been the predominant outcome.

The role of government should be to negotiate and articulate a clear set of expectations for each institution, informed by the university's or college's strategic plan. This plan should outline how the institution will achieve improved quality and establish a performance measure of that expectation; it should also modify funding based on the degree to which an institution succeeds in meeting the expectations.

The government should provide grants to post-secondary institutions in a way that allows them to maintain best practices, pursue continuous improvement and improve quality across the board. Setting outcome targets based on the individual mandates of each institution is integral because it is unreasonable and potentially unproductive to expect all institutions to deliver the same results. For some institutions, government might bias the performance measures towards research output and productivity. For others, the performance matrix might be biased to excellence in undergraduate teaching. For still others, regional economic development would take on greater importance.

Research is a necessary component of higher learning. In Canada, post-secondary institutions conduct about one-third of non-government research, compared to an average of 15 per cent in the OECD and the G7. Canada's high ratio is a direct result of huge investments by federal and provincial governments in post-secondary institutions to support research. However, all levels of government should take a focused approach and carry out an evaluation to ensure that institutions are not cross-subsidizing research at the expense of teaching. In addition, efficient funding practices should be undertaken like those identified in the 2009 Auditor General's report on the Ontario Research Fund.

Before discussing some more specific issues with the status quo, we address two very topical matters in PSE: whether tuition freezes are in students' interests and the balance between research and teaching excellence.

1) Tuition freezes are not in students' interests

The fact that tuition fees are rising faster than inflation is troubling. It is imperative to first ensure that post-secondary institutions are being run extremely efficiently; tuition revenue should represent a good investment for students. Institutions and government must continue their efforts to ensure that access is not impaired by financial barriers to education. However, the reality is that tuition freezes are not in students' interests.

The likely result is a further marked deterioration in the student experience, meaning larger classes, with fewer opportunities to debate and develop critical thinking skills. This position is supported by a tuition policy study conducted for the Canada Millennium Scholarship Foundation, which concluded that "freezes, reductions or eliminations of fees"² can have a negative impact on education quality while placing greater strain on institutions. Freezing tuition now reduces revenues at a time of constrained government funding; institutions will find other ways to make up for lost potential revenues, resulting in lower-quality PSE.

2) Research efforts should not trump the teaching experience

As federal government support for research tripled between 1997 and 2003, universities responded universally. Most universities (and, more recently, some colleges) have elected to pursue the myriad federal and provincial research dollars available, all in the name of becoming "world-class research centres." The reality is that few of Ontario's research centres will become the best in Canada, never mind the world. Many, however, have gone so far as to apply cross-subsidies within their institutions, effectively taking money from undergraduate tuition revenues to further support research. Increasingly, institutions are allowing professors to sacrifice teaching commitments to conduct more research, as has been noted in books such as *Academic Reform*. Clearly, there must be a better balance; excellent research should not trump excellent teaching.

Status Quo Is Unsustainable

The confluence of sustained enrolment growth, lower revenue streams from investment income and higher costs driven by compensation has led to the realization that even maintaining the status quo requires increased efficiency and system reform. Internal rates of inflation at post-secondary institutions, which is the cost of continuing to do the same thing, average three to five per cent. The current system is unsustainable from a financial and quality perspective, as enrolment growth crowds out the funding that is available even to maintain the status quo.

² W. Swail and D. Heller, "Changes in Tuition Policies: Natural Policy Experiments in Five Countries," 2004, Canada Millennium Scholarship Foundation, p. 49.

Perceptions differ on what constitutes teaching quality, but Ontario's post-secondary sector faces issues such as increasing reliance on part-time faculty, larger class sizes (which might not be conducive to students' engagement in education) and full-time faculty who do less teaching than a decade ago.³

"Many Canadians are becoming concerned about the quality of teaching and learning in our universities. Similar worries are being voiced in the United States, where studies like those described in the recent book, *Academically Adrift*, have suggested that, for many students, four years of university produces little or no measurable improvement in writing skills, critical thinking or complex reasoning."

Ian Clark, "Improving Undergraduate Education in Canada - The Good and Not So Good News," Association of Universities and Colleges of Canada, Nov. 21, 2011.

Ontario is not alone in this. A recent study from the Association of Universities and Colleges of Canada identifies the following challenges nationwide: "the overall size of many universities, which has become problematic; large class sizes and an increasing student-teacher ratio; and limited student-faculty interaction."⁴ However, Ontario could do better in terms of quality with existing resources.

Transformational change is needed to afford a high-quality system with appropriate access. Among the challenges is the need to address quality deficiencies, especially at the undergraduate level.

³ Clark et al., *op. cit.*, p. 18.

⁴ Association of Universities and Colleges of Canada, "The Revitalization of Undergraduate Education in Canada," p. 5, downloaded from <http://www.aucc.ca/wp-content/uploads/2011/09/the-revitalization-of-undergraduate-education-in-canada-2011.pdf>.

Thrust of Our Recommendations

The Commission recommends the following:

1. Contain government funding and institutional expenses;
2. Use differentiation to improve post-secondary quality and achieve financial sustainability;
3. Encourage and reward quality;
4. Revise research funding structures;
5. Maintain the current overall cap on tuition-fee increases, but simplify the framework;
6. Re-evaluate student financial assistance; and
7. Generate cost efficiencies through measures such as integrating administrative and back-office functions.

Training is addressed in Chapter 9, Employment and Training Services.

Contain Government Funding and Institutional Expenses

The Ontario government has played catch-up for post-secondary sector funding through the implementation of the \$6.2 billion Reaching Higher program and additional infrastructure investment. Currently, about 46 per cent of total university operating revenue and 47 per cent of college operating revenue is provided through government operating grants. Institutions also rely on other sources of funding such as tuition, interest from endowments and ancillary fees. Based on 2008–09 data, tuition fees accounted for about 37 per cent of total institutional operating revenues.

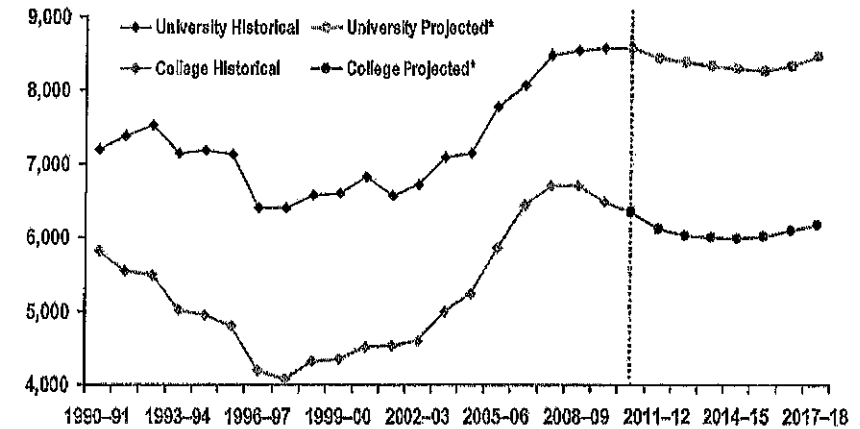
The province's current fiscal situation has added an additional challenge, as grants to post-secondary institutions and other sectors must be constrained for the government's budget to return to balance by 2017–18.

Recommendation 7-1: Grow government funding for the post-secondary education sector by 1.5 per cent per year until 2017–18.

Such growth means that grants will not keep pace with projected enrolment growth of 1.7 per cent per year, nor with the general rate of inflation, never mind with the institutions' historical internal rates of inflation. Nevertheless, our recommendation protects annual growth in post-secondary funding at a time when many other public services will be rationalized.

CHART 7.1 University and College Per-Student Funding in Ontario Since the 1990s (not adjusted for inflation)

Funding per Full-Time Equivalent Student



* Based on 1.5 per cent growth in current government operating grants.

Full-Time Equivalent — Includes all domestic students eligible for funding (full-time and part-time, etc).

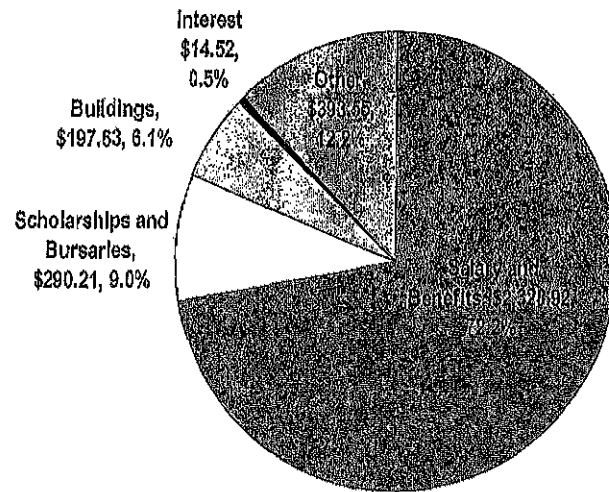
Source: Data up to 2010-11 are from the Ontario Ministry of Training, Colleges and Universities (MTCU) and the projections are based on the Commission's own recommendations of growing operating grants by 1.5 per cent and dividing by enrolment data provided by MTCU.

Ontario's post-secondary institutions must become more efficient to preserve, if not enhance, quality within tighter financing conditions.

Recommendation 7-2: Work with post-secondary institutions to reduce bargained compensation increases, where they exist, and instead align them with trends in more recent settlements in the broader public sector; a rigorous performance system should also be introduced to guide compensation, where one is not already in place.

Salaries, wages and benefits now account for about three-quarters of university and college expenditures, with annual cost inflation in the sector projected at three to five per cent.

CHART 7.2 Increase in Total Expenditure per Fiscal Full-Time Equivalent (FFTE) in Ontario Universities from 2004-05 to 2009-10



Note: FFTE – Number of students with full-time study load.
Source: System Growth, November 2011, Ontario Undergraduate Student Alliance.

Recommendation 7-3: If capital budgets are constrained, post-secondary institutions should consider using alternative financing and procurement, especially for buildings that do not qualify for government funding, such as residences.

Residences provide an identified revenue flow, which make them promising as alternative financing procurement projects for private partners.

Increase Differentiation through Establishing Mandate Agreements

The current design of Ontario's public university and college system was largely established by the late 1960s. Both systems have grown since then and the mandate of colleges has increasingly evolved to include some degree-granting powers, blurring the original rationale for creating the college system as discrete from universities.

Recommendation 7-4: By 2012-13, establish multi-year mandate agreements with universities and colleges that provide more differentiation and minimize duplication; these should be implemented beginning in 2013-14.

Not every institution needs to become a comprehensive research university, nor does each college require new degree-granting authority. The primary intent of further differentiation is to provide clarity to the system in terms of mandates.

"For learners, greater differentiation of Ontario's university sector offers clearer choices from a larger number of high quality programs, clarifies the institutions that best serve their career and personal aspirations, and facilitates mobility and transitions between institutions and Ontario's post-secondary system."

Harvey Weingarten, President and CEO, Higher Education Quality Council of Ontario.

Differentiation is not a panacea for all the system's issues but simply a logical progression to improve quality and sustainability. Inherent in differentiation is the potential for reducing inefficiencies and realizing cost savings by minimizing further duplication of programs.

Recommendation 7-5: Institute a process for establishing mandate agreements using a review by either a blue-ribbon panel or the Higher Education Quality Council of Ontario to ensure the highest-quality programs are funded to grow and expand. This should be completed in the 2012–13 fiscal year and must be transparent for the institutions and the public.

Recommendation 7-6: Establish and implement a rational and strategic division of roles between the college and university systems.

This division of roles would include the following features:

- Colleges and universities should agree on a standard of educational attainment and quality that would allow college students who have completed two years and meet predetermined academic achievement criteria to transfer into the university system;
- Colleges should not be granted any new degree programs, but should have existing programs grandfathered;
- New programs at any post-secondary institution should not be approved by government until the development of multi-year mandate agreements is complete;
- When considering future growth, the creation of new professional and specialized programs such as law, medicine and business should not be approved without a compelling business case; and
- The Colleges of Applied Arts and Technology should work with the College of Trades to optimize the delivery of apprentice training in non-degree programs (see Chapter 9, Employment and Training Services, for details on the College of Trades).

Recommendation 7-7: Create a comprehensive, enforceable credit recognition system between and among universities and colleges. This is an absolutely essential feature of differentiation.

When students want to transfer from one university to another or from one college to another in comparable programs, they should be able to transfer a good number of credits. The decision on credit transferability should be communicated in a timely manner. Residency clauses, which, for example, require students to take 75 per cent of their credits at one institution to receive a degree from that institution, will also need to be revised to facilitate ease of transfer between institutions.

In the *2011 Budget*, the government invested \$73.7 million over five years for credit transfer but more work must be done to ensure that colleges and universities comply and expand credit-transfer agreements.

Furthermore, a two-way credit-transfer system between colleges and universities is also required, given the number of students who choose college post-university and those who choose university post-college.

Encourage and Reward Quality

Beyond the use of differentiation to support quality, the Commission proposes several specific initiatives. Evidence from student surveys on the quality of their learning experience, such as the National Survey of Student Engagement, has shown dissatisfaction with large class sizes and inadequate library facilities, to name a few.

The Commission highlights three specific areas that should be addressed:

- I. Refocus resources and rewards towards teaching in post-secondary institutions;
- II. Refocus provincial funding to reward teaching excellence; and
- III. Establish a performance regime in mandate agreements that include certain quality indicators.

1) Refocus resources and rewards towards teaching in post-secondary institutions

Recommendation 7-8: Post-secondary institutions need to devote more resources to experiential learning such as internships; allow for more independent or self-assigned study; develop problem-based learning modules; and increase study abroad and international experiences.⁶ Many institutions already incorporate these features into their programs, funding them from within existing portfolios.

A future funding model should contemplate such alternative approaches to furthering the five objectives of post-secondary institutions we have identified above.

⁶ Association of Universities and Colleges of Canada, op. cit., p. 6.

Recommendation 7-9: Encourage universities that do not presently have flexible provisions regarding teaching and research workloads in their collective agreements with faculty to consider such provisions in future bargaining. While each university must conduct teaching and research, top-performing teachers and researchers should be recognized with the appropriate workloads and rewards.

Progress on this front should be noted: 11 Ontario universities already have such flexibility.⁶ These successful practices should be continued and mirrored in the remaining complement of post-secondary institutions.

Some institutions have also experimented with alternate career paths, including formalizing teaching-only or research-only streams. We consider this to be a viable option for top-performing teachers and top-performing researchers.

Recommendation 7-10: Have post-secondary institutions redesign incentive systems to reward excellent teachers, as is currently done for researchers.

Teachers should also be rewarded for developing innovative methods of teaching and learning, with tenure and promotion linked to innovation. "Safe spaces" should be created for faculty to try innovative approaches to teaching, and these attempts at innovation should be included in merit reviews. This innovation should be supported through funding and other types of recognition. Successful models can then be scaled up and shared, both within the institution and with others. This would encourage new forms of campus culture to develop and lead to more interactions between teachers and students.

II) Refocus provincial funding to reward teaching excellence

Recommendation 7-11: Link further provincial funding allocations to quality objectives, which will encourage post-secondary institutions to be more responsive. In addition, the province should alter the funding model to also reward degrees awarded, rather than just enrolment levels.

Because higher enrolment generates higher funding, the current funding framework encourages post-secondary institutions to increase enrolment.

Recommendation 7-12: Government and post-secondary institutions must measure learning outcomes; that is, the value added through education, not just whether a person graduates.

⁶ S. Vajoczki, N. Fenton, K. Menard and D. Pollon, "Teaching-Stream Faculty in Ontario Universities," Higher Education Quality Council of Ontario, p.16, downloaded from <http://www.heqco.ca/SiteCollectionDocuments/Teaching-Stream%20Faculty%20In%20Ontario%20Universities.pdf>.

Graduating from a post-secondary institution should not simply be an indication of a student's ability to master certain facts and figures (most of which can be memorized even if not understood). The capacity to integrate ideas and create innovative solutions to problems is at the heart of the higher education experience. This will be critical to the economic and social success of Ontario, in an economy where graduates will be working over their career in ways that cannot even be imagined now.

This approach will require ensuring that academic standards for graduation are maintained and remain in line with provincial performance metrics. This should create an incentive for schools to make the learning experience as relevant as possible, leading to more students remaining in school and higher graduation rates.

III) Establish a performance regime in mandate agreements that includes certain quality indicators

Considerable progress has been made in establishing common indicators between the Council of Ontario Universities and the multi-year accountability agreements set by the Ministry of Training, Colleges and Universities (MTCU) with universities. System-wide indicators for universities in 2009–10 include indicators of credit transfer system use, participation rates of under-represented communities, space utilization and class size. Outcome indicators such as university student satisfaction, rates of graduation and post-graduation employment are also used, while Colleges Ontario has a broad set of indicators including employer satisfaction with recent college graduates' skills and performance. However, the underlying measures used to indicate the quality of the learning environment should be enhanced for both universities and colleges.

Recommendation 7-13: Enhance performance measures in multi-year accountability agreements with post-secondary institutions through the use of teacher performance scores and student satisfaction ratings where the primary reasons for dissatisfaction are adequately captured.

Recommendation 7-14: Work with private career colleges (PCCs) to collect and publish the same performance indicators as public colleges and universities. Private career colleges should bear the cost of such reporting.

This can be done through regulation on the part of the Ontario government or through a Delegated Administrative Authority (DAA) vehicle by enlisting an association such as the Ontario Association of Career Colleges or some other comparable body to provide oversight and ensure accountability.

No data have been collected or published on the student experience in PCCs since 2006.⁷ That leaves prospective students very vulnerable to institutions that do not provide a reasonable student experience, including reasonable prospects of studies leading to a job.

Recommendation 7-15: As a part of the mandate agreements with post-secondary institutions, tie outcome quality indicators to funding.

Since post-secondary institutions are multi-faceted, producing educated students, research and innovation, and local economic development, there should be a more all-encompassing method of measuring outcomes and linking funding to the results. Beyond the indicator improvements suggested above, efforts should be made to ensure that the funding agreements cannot be gamed through the provision of watered-down degrees.

Revise Research Funding Structures

Recommendation 7-16: Evaluate the research funding system of post-secondary institutions and research hospitals as a whole, including how it is affecting university and hospital budgeting practices.

The federal government, which to its credit prompted the surge in university-based research, does not cover all associated research costs. As a result, universities subsidize research from other sources. The review should also analyze commercialization outcomes of research and development investments. "The ability of Canadian universities to commercialize remains very weak, as research suggests that U.S. universities perform about 14 times as much research as Canadian universities, but receive 49 times as much licensing income — a key indicator of the value of innovations."⁸ The Commission sees great value in investments through the Early Researcher Award and the Ontario Research Fund — Research Infrastructure program (the provincial component of the federal Canada Foundation for Innovation investment).

Recommendation 7-17: Award provincial research funding more strategically and manage it more efficiently. Consolidating and offering a single-window approach for access and reporting through an online portal will greatly improve efficiency and reduce paperwork, both for government and for post-secondary institutions.

Maintain Current Tuition Fee Increases but Simplify the Framework

Recommendation 7-18: Maintain the existing tuition framework, which allows annual tuition increases of five per cent. However, simplify the design to maintain the overall ceiling but allow institutions greater flexibility to adjust tuition fees at the program level, within the ceiling.

⁷ Ontario Auditor General, "Auditor's 2011 Report: Private Career Colleges," 2011, p. 251.

⁸ D. Drummond, C. Alexander and S.M. Fard, "Post-Secondary Education Is a Smart Route to a Brighter Future for Canadians," *TD Economics Special Report*, May 2010, p. 31.

Currently, the tuition framework allows, among other conditions, a maximum annual percentage increase for new students for first-entry undergraduate programs and another, slightly higher, percentage increase for professional and graduate programs. The result is a complex fee administration with different fees for different programs, and, for any particular program, a different fee for every cohort of students. The maximum total fee increase each year (all programs, all years) may not exceed five per cent. The multitude of corollary conditions should be removed while maintaining the overall tuition increase ceiling.

Re-evaluate Student Financial Assistance

Tuition increases must not come at the expense of student affordability and access. A necessary complement to maintaining the current tuition framework is an improvement to the student loan financing system. The federal and Ontario governments spend billions on student financial assistance. The total will rise by almost another \$0.5 billion when the new 30% Off Ontario Tuition⁹ grant matures.

In 2009–10, total Canadian student financial assistance was \$8.3 billion (in 2010 dollars). Most student loans are repaid, so from a fiscal perspective it is relevant to look at the total excluding loans, which was \$5.1 billion. Of that, \$3.4 billion was not directly related to need, with \$2.4 billion of tax measures being the largest component. By way of comparison, total tuition revenue for universities and colleges was \$5.8 billion in 2010.

The corresponding numbers for Ontario (including the portion of federal assistance accruing to Ontario recipients) were \$4.0 billion of total assistance, or \$2.2 billion excluding student loans. Of that, \$1.4 billion was not related to need, with tax measures accounting for \$1.0 billion. Tuition revenue in Ontario was \$3.0 billion in 2010.¹⁰

~~This funding, however, is not focused on lower-income students whose access is most likely to be compromised by financial considerations. Indeed, the combined impact of all forms of assistance including student loans, loan remissions, grants and bursaries, tax credits, savings incentives and summer employment subsidies provides little more for students of the lowest-income families than those of the best-off.¹¹~~

⁹ See www.ontario.ca/30off for details.

¹⁰ Council of Ministers of Education, Canada (CMEC), January 2012. Total tuition revenue figures compiled from the Financial Information of Universities and Colleges (FIUC) annual reports. Figures include total tuition revenue. FIUC annual reports are prepared by Statistics Canada for the Canadian Association of University Business Officers (CAUBO), downloaded from: http://caubo.ca/resources/publications/financial_information_universities.

¹¹ Drummond, et al., op. cit., p. 24.

Further, the student support system is not consistent with the ample evidence that family income is not the most serious access problem. Statistics Canada's *Youth in Transition Survey* and work commissioned by the Higher Education Quality Council of Ontario (HEQCO) show having no family history of college or university is the most significant obstacle to PSE.¹²

Income seems to be even less of a deterrent in Ontario than in other provinces. An evidence-based approach to access would suggest that more attention be devoted to "improving student motivation and performance at (or before) the high school level, providing better information to students and their families about the costs and benefits of education from an early age and carrying out other interventions targeted at the early-rooted and family-based factors that seem to be the most important determinants of access."¹³ Addressing the most acute access issues then becomes very much an issue for the elementary and secondary school system, in conjunction with post-secondary institutions, community organizations and businesses.

Recommendation 7-19: Maintain the Ontario Student Access Guarantee, which represents 10 per cent of additional tuition revenue that institutions are required to set aside to fund bursaries and other student assistance programs.

Recommendation 7-20: Reshape student financial assistance provided by both the federal and provincial governments, including the newly announced 30% Off Ontario Tuition grant, to target more of the assistance to low-income students whose access is most likely to be compromised by financial obstacles and broaden the approach to improving access to post-secondary education.

In its present form, the 30% Off Ontario Tuition grant will be provided to students whose family income is less than \$160,000. Student financial assistance should be redirected towards those who need it most.

Recommendation 7-21: Explore phasing out provincial tuition and education tax credits to invest in upfront grants.

¹² R. Finnie, S. Childs and A. Wismer, "Under-Represented Groups in Postsecondary Education in Ontario: Evidence from the Youth in Transition Survey," 2011, Higher Education Quality Council of Ontario; R. Finnie, S. Childs and A. Wismer, "Access to Postsecondary Education: How Ontario Compares," 2011, Higher Education Quality Council of Ontario.

¹³ Higher Education Quality Council of Ontario, "Parental Education Key Determinant of Who Pursues Higher Education," (press release, Feb. 8, 2011), downloaded from <http://www.heqco.ca/en/CA/About%20Us/News%20Releases/Pages/Summary.aspx?link=2&title=Parental%20education%20key%20determinant%20of%20who%20pursues%20higher%20education>.

Although tax credits are intended to provide assistance to all post-secondary students — by recognizing for tax purposes amounts spent on PSE — the timing of providing financial aid to students through tuition credits is inconsistent with promoting accessibility or affordability. Students typically accrue most of their expenses at the start of the first semester while tuition credits arrive at the end of the academic year because their timing is governed by the annual cycle of tax filing and refunds.

As for universal government transfers, a report prepared for the Canada Millennium Scholarship Foundation in 2007 concludes that the tuition and education tax credits do not encourage participation in PSE and are costly given the fact that they are “at best neutral and at worst regressive.” The report further concludes that “eliminating credits would create an opportunity to use these funds in less regressive ways and allow for some effective restructuring of Canada’s ‘complex web of student financial aid systems.’”¹⁴

Recommendation 7-22: Streamline student financial assistance by decoupling loans and grants. Eligibility for grants should not be contingent on loan applications.

Students may be eligible for a grant and a loan, but might be unaware of the grant availability unless they have already applied for a loan through the Ontario Student Assistance Program (OSAP). Currently, students who are required to apply for OSAP loans to gain access to their grants often repay these loans immediately simply to get the grant that is tied to the loan.

Recommendation 7-23: Harmonize the variety of scholarships, grants and other assistance programs that the government offers, into already-existing programs of a similar nature, across post-secondary institutions.

Recommendation 7-24: Lower the current 25 per cent Ontario Student Assistance Program default-rate threshold for triggering cost-sharing to 20 per cent for all post-secondary institutions in Ontario and work with institutions towards the objective of setting a still-lower threshold in future.

Any school exceeding this threshold would be required to reimburse the province for default costs above the threshold. Although progress has been made in lowering default rates across the system, more can be done to ensure that a relevant education is provided that will lead to jobs and protect taxpayers.

¹⁴ Drummond et al., *op. cit.*, p. 22, citing Canada Millennium Scholarship Foundation, 2007, *Canada’s Tuition and Education Tax Credits*, p. 11.

The average OSAP default rate for PCCs now stands at 13.0 per cent, while the rates for universities and colleges are far lower at 3.7 per cent and 10.6 per cent respectively. The high default rates for PCCs mean the exposure of taxpayers is substantial. Through OSAP, almost \$200 million in loans and grants were provided to an annual average of 9,500 PCC students over the last three academic years.¹⁶ In addition, the government provides \$350 million per year through employment and training supports.

Recommendation 7-25: Extend the review period for Ontario Student Assistance Program default rates, which are now measured roughly two years after borrowers start repaying.

The government should track repayment beyond the third year after school is completed, looking at defaults that occur in the fourth through sixth years. Default rates recorded over this longer period should be applied to the default cost-sharing.

Any institution subject to cost-sharing for two consecutive years would be placed on probation and would be required to submit to the MTCU, as well as to implement, a plan for reducing its default rates below the 20 per cent threshold.

Generate Cost Efficiencies through Measures such as Integrating Administrative and Back-Office Functions

Recommendation 7-26: Have the post-secondary sector leverage its existing collective purchasing capacity through the Ontario Education Collaborative Marketplace and regional buying groups.

This move would enable a co-ordinated approach to strategic sourcing, contract management and product/process standardization. This would be similar to other collective back-office functions such as the student application process, administered through the Ontario University Application Centre (OUAC) for all universities, or the Ontario College Application Services (OCAS) for all colleges.

Recommendation 7-27: Establish a single pension fund administrator for all university and college pensions, while recognizing differences in pensions.

Most hospitals, colleges, municipalities and school boards now operate as separate employers but participate in a single pension plan. All Ontario colleges take part in the Colleges of Applied Arts and Technology (CAAT) Pension Plan, which is administered by an independent, arm's-length board. The CAAT Pension Plan has assets of about \$5.5 billion.

¹⁶ Ontario Auditor General, *Auditor's 2011 Report: Private Career Colleges*, 2011, p. 251; the Ontario Ministry of Training, Colleges and Universities notes that its figures are \$240 million in Provincial OSAP support, which has flowed to 32,000 PCC OSAP recipients over the past three years (2008-09 through 2010-11).

In comparison, Ontario's university sector has a very fragmented pension arrangement with more pension plans than institutions — 29 pension plans for 23 institutions, 17 defined benefit plans, four defined contribution plans and eight hybrid plans (a defined contribution plan with a defined benefit floor). These plans vary widely in the benefits they provide and the contributions made by employers and plan members. There is also wide variation in the size of these plans. The market value of assets ranges from about \$15 million to about \$2 billion. In total, the sector has about \$10 billion in assets.

This fragmented arrangement means that each university administers its own pension plan(s), which implies that each institution may not be realizing the economies of scale that would result if this function were more centralized. In view of this arrangement, the consolidation of administrative processes and practices, including the pooling of assets for investment purposes, may generate savings for the sector.

With a consolidated approach, the administrative function would be carried out by another body. However, each employer/sponsor would remain the legal administrator of its plan, retain its fiduciary responsibilities and determine plan benefits, while minimizing costs.

The *2011 Budget* announced the government's intention to undertake a review of single-employer, public-sector pension plans, with one goal being to pursue greater efficiencies in plan administration. We support this undertaking; consolidation of the administrative functions among all pension plans may achieve greater cost savings.

Recommendation 7-28: Before new capital spaces are approved, require universities and colleges to demonstrate increased use of space and consider year-round optimization of existing spaces. Priority should be given to the deferred maintenance in the current capital stock before new capital projects.

Any campus expansions funded by the province should be viewed through a return-on-investment lens. Factors such as the increase in productivity for the institution through a better learning experience for students, energy cost reductions through the use of renewable energy sources and energy-efficient building design should be considered. Currently, the principal driver for expansion may be increases in enrolment, and while energy conservation aspects may be part of the building design, they are not integral to the productivity outcomes expected from the expansion.

Recommendation 7-29: Compel post-secondary institutions to examine whether they can compress some four-year degrees into three years by continuing throughout the summer.

This could improve the facility efficiency and reduce the opportunity cost for students. As many students work in the summer, the four-year degree should not be abandoned, but instead the three-year option should be made available to those with the desire and capacity to pursue it, in much the same way that co-operative education streams are available in some programs.

Recommendation 7-30: Cease funding for international marketing of Ontario's universities and integrate it into existing trade mission activities. Universities, colleges and the federal government already invest in these activities.

Conclusion

We believe our recommendations address the five significant pressures facing PSE in Ontario. These include educating a growing share of the population; helping to equalize economic and social outcomes across the population; providing an important component of lifelong learning; being an engine of innovation; and delivering quality education, especially with a constrained provincial fiscal situation.

The status quo is unsustainable and the proposed reforms matter, as they clarify the roles of our post-secondary institutions and government. Taken together, the reforms present a holistic approach for a sector that we recommend will receive funding growth of only 1.5 per cent per year to 2017–18.

If the cost containment measures recommended here are not enough to allow the ministry to live within the 1.5 per cent growth annually, then it will be necessary to eliminate the 30% Off Ontario Tuition grant. The government's highest priority should be to fully fund the operating grants for colleges and universities contained in the individual institutions' new multi-year mandate agreements, followed by existing capital commitments. This will ensure Ontario's PSE institutions continue to focus on delivering quality education, which will in turn benefit students academically and provide the brand recognition that will serve them in their future careers.

The challenge is for post-secondary institutions to do more with what they have and make the education even more relevant for the undergraduate experience. Differentiation is the next logical step for our post-secondary system. Within that clarification lies the potential for more than simply increased efficiencies, but also support for education quality.

For the individual, PSE represents an opportunity to equalize economic and social outcomes and provide real private returns with social spillover effects. This requires some contribution from individuals, not only financially but also academically. For the public, our economic competitiveness hinges on our post-secondary sector and, as such, our recommendations guide the sector to achieve a more cost-efficient, affordable and higher-quality system, with modest funding growth.