



# Canadian Budget Commentary 2007

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On Monday March 19, Federal Finance Minister Jim Flaherty delivered the new Conservative government's second budget. This document contained a number of measures related to post-secondary education in Canada.

## TRANSFERS TO PROVINCES

The largest matter affecting universities and colleges, in fiscal terms, is the proposed change in the Canada Social Transfer (CST). The proposed change includes a two-phase increase totaling \$1.5 billion with an escalating amount thereafter.

In the first-phase (2007-08), the CST – which is the main transfer payment by which money is transferred from Ottawa to the provinces for social assistance and post-secondary education – will increase by \$687 million thanks to the new budget. . This money may be designated by some provinces for PSE, but it is not specifically allocated as such.

The purpose of the 2007-08 increase is to turn the CST into a per-capita transfer, and it will be used to “top-up” the grants of those provinces (primarily Alberta and Ontario) who had previously received less than their demographic share. As a result, almost all new CST money for 07-08 will go to the provinces of Alberta and Ontario, incidentally providing the latter with almost exactly the amount of money due it under the May 2005 Canada-Ontario agreement signed by Premier McGuinty and then-Prime Minister Martin. Most other provinces will see either no change or an increase of only a million or two – except for Saskatchewan and British Columbia, each of which will see a \$50 million decrease in base CST funding (this will however be at least temporarily offset by floor payments).

In the second phase (2008-09) the CST will be increased by another \$800 million which in theory is specifically for “strengthening the quality and competitiveness of Canada’s post-secondary education system”. This is linked to a promise that between now and then there will be “discussions with provinces and territories on how best to make use of those new investments and ensure appropriate reporting and accountability to Canadians”. Of course, this is not the first time the Conservatives have made a promise to start a dialogue on post-secondary education and accountability: this year’s promise is almost word-for-word what they promised on the subject last year, to remarkably little effect so far.

So far, so straightforward; but the final budget promise with respect to transfers has required the government to engage in some interesting mathematics. From 2008-09 onwards, the government has promised to increase PSE spending by 3 percent each year to account for increases in population and inflation. But this 3% escalator will not

apply to the entire CST; instead, it will apply only to a \$2.4 billion (or \$3.2 billion after 2008-09) slice which has been designated as being “for post-secondary education”.

This “PSE transfer” is presented in the budget as some kind of long-established fact; however, it is nothing of the sort. For years, the Government of Canada has maintained that it is impossible to distinguish how much of the CST (or, before that, the CHST) went to PSE. What the \$2.4 billion represents is a “notional” earmark – but why the government chose this particular low number is difficult to say. By picking a low number, the \$800 million 2008-09 increase seem large in comparison; it also makes a subsequent 3 percent per annum increase fiscally feasible. But it may bring some long-term problems as well: if the federal government claims to only be providing \$2.4 billion to a college and university sector receiving nearly \$20 billion, it may find its leverage severely constrained in terms of securing accountability arrangements from the provinces in return for its new \$800 million investment.

## MEASURES FOR INDIVIDUALS

The new budget contains a number of measures aimed at individuals and families, designed among other things to promote excellence in all educational pursuits and enhancing graduate education.

The Canada Graduate Scholarships have been increased by \$35 million over two years, and re-branded to recognize the contributions of some of Canada’s most famous innovators and scientists (Sir Frederick Banting and Dr. Charles Best, Alexander Graham Bell, and Joseph-Armand Bombardier). This will result in a 25 percent increase in the number of scholarships available at the graduate level, with 400 new scholarships delivered by each of Canadian Institute of Health Research (CIHR) and Natural Science and Engineering Research Council (NSERC), and 200 delivered by Social Science and Humanities Research Council (SSHRC).

The Government of Canada has once again made adjustments to the Registered Education Savings Plans to encourage greater savings rates. The annual savings cap (\$4,200) has been removed and the lifetime limit has been increased to \$50,000. The annual top-up limit has been increased from \$400 to \$500 – a roughly \$15 million “affordability” measure which is unlikely to help anyone other than the upper middle-class – and RESP rules have been changed so as to permit students studying part-time to withdraw money (currently, this privilege is only extended to full-time students).

Budget 2007 made no modifications to the Canada Student Loans Program (CSLP), but the program did not go unnoticed. For what is believed to be the fourth time in the last eight budgets, the Government of Canada has announced a national review of student assistance to make the system more effective and examine ways to streamline administration processes. The goal of this review is a more simplified, efficient and streamlined system of student loans. These are all important goals, but notably absent

is the promise of any new funding. Given that the Millennium Scholarship Foundation – which provides over a third of all student grants in Canada – is due to run out of money in less than two years, this is a surprising omission.

The push for educational excellence does not end inside the borders of Canada. Budget 2007 commits \$ 2 million on a marketing plan to promote Canada's post-secondary educational brand abroad. Though the sum is trivial, it is a step in the right direction: anyone travelling through Asia countries in the past five years will doubtless have seen the aggressive educational campaigns being waged by Australian and English institutions and mused about why Canadians couldn't do the same. The Government of Canada is now getting into the game. The campaign is meant to focus on priority markets such as India, China and – less explicably - Brazil.

One final note, the taxman is no longer coming after elementary and secondary school students for the scholarship or academic prize money. Budget 2007 exempts scholarship monies for any and all students – regardless of educational pursuit.

## SCIENCE, RESEARCH AND TECHNOLOGY MEASURES

The budget contained a number of measures related to research and innovation, including:

- \$510 million for the Canada Foundation for Innovation (CFI) so that it may to undertake another major competition before 2010.
- \$120 million to CANARIE Inc., to maintain the CA\*net network for the next five years and to develop the next generation CA\*net5.
- \$10 million to the Canadian Institute for Advanced Research to help Canadian researchers participate in and lead groundbreaking research on the international stage.
- \$85 million per year in new money will go to the four federal research granting councils (\$37 million each to CIHR and NSERC, \$11 million to SSHRC – a split which is in keeping with the relative sizes of the three institutions' budgets). Although this represents a 5 percent increase overall, SSHRC and NSERC money has been earmarked to specific disciplines, meaning that some areas will get much larger increases and others will get none. At NSERC, new money has been earmarked specifically for research in energy, the environment and ICT: the new money means a 15% increase in these areas. At SSHRC, the entire \$11M budget has been directed into business, management and finance – which represents a doubling of the budgets for management and economics.
- An additional \$15 million per year to cover the indirect costs of research associated with the new granting councils investment. Of some possible concern to universities is that fact that this \$15 million will cover overhead of only 17.6 percent

of the new granting council investments, whereas the current standard is closer to 20 percent.

- \$350 million through 2008-09 to support seven Centres of Excellence in Commercialization and Research. Of this, \$50 million will go to the Perimeter Institute, \$105 million will be shared between UBC's Brain Research Institute, the Canadian School of Sustainable Energy (U of Alberta, U of Calgary and U of Lethbridge), the Li Ka Shing Knowledge Institute (St. Michael's Hospital/U of Toronto), Heart and Stroke Foundation (U of Ottawa, U of Toronto), McGill's Neurological Institute, the National Optics Institute in Quebec, and the Life Sciences Research Institute in Halifax, and the remainder will be distributed through a competitive peer review process.
- Genome Canada will receive an additional \$100 million in 2006-07 to extend promising research projects and sustain funding for regional genome centres and related technology platforms.

## SUMMARY

Despite the fact that this budget provides a significant boost in PSE and research funding, it is unlikely that the higher education community will react in a terribly positive way. There is a significant amount of new transfer money, but it won't arrive for a year. There is money for all three granting councils, but it is directed into specific areas of study. There is money for CFI and internationalization, but much less than hoped (and in the latter case, trivial). Yet at the same time, the fact that the Government of Canada has given at least a nod to the sector in all these areas means it will be difficult to oppose. Expect the sector leaders to give the budget grudging support.

The biggest missing piece in this budget by far is student assistance. Although there is no current crisis in the sector, rising interest rates and the coming wind-up of the Canada Millennium Scholarship Foundation are guaranteed to leave a half-billion dollar hole in the sector within three years (as noted by the Educational Policy Institute in our July 2006 report *The Student Aid Time Bomb*). As time ticks away to the Foundation's inevitable final disbursement of cash (now only 22 months away), the sector is in desperate need of some certainty around the country's largest source of grant dollars. Jim Flaherty, however, has chosen to leave this for another day.