The 2010 Federal Budget:

A Canadian Education Project Commentary

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Introduction

On March 4th, 2010, Federal Finance Minister Jim Flaherty delivered the Conservative government's fifth budget. Coming at a time of considerable economic uncertainty, this budget was pegged in advance as a "stand-pat budget"; too early to begin withdrawing support from the fragile economy, but too soon to begin implementing measures to reduce the deficit. Though there were fewer new initiatives in this budget than in any of the four previous budgets, Mr. Flaherty's latest effort nevertheless contained a number of significant measures related to Post-Secondary Education (PSE) in Canada.

Measures involving Institutions and Governments

Increases in Funding to Granting Councils and Indirect Costs of Research

One of the headline items in this year's budget is a permanent increase of $32 million to the total annual budgets of Canada's three granting councils. This partially offset the reductions that were announced as part of last year's Strategic Review of council programs and services, totaling $75 million and phased-in over three years. Once the review cuts have taken their course, the net reduction to Canada's granting councils will be $43 million.

The distribution of funds is not equal across granting councils. The Canadian Institutes of Health Research (CIHR) will receive an increase of $16 million and the Natural Sciences and Engineering Research Council (NSERC) will receive an increase of $13 million, while the Social Sciences and Humanities Research Council (SSHRC) will only receive $3 million. This is somewhat anomalous when viewed historically; usually changes to council budgets follow the ratio of 3:3:1 for CIHR, NSERC, SSHRC, in line with the relative size of their budgets. The current increases are closer to 5:4:1, with SSHRC getting the short end of the funding stick. However, once the strategic review cuts are factored in, the picture is somewhat different: CIHR will see an annual permanent funding decrease of $16 million, NSERC will see a loss of $22 million, and SSHRC will see a permanent budget decrease of $5 million.

SSHRC may be relieved that this year's funding increase does not seem to have the same stipulations as witnessed in previous years. While earlier Conservative budgets made funds disbursed to SSHRC conditional on being used for "business-related fields", this year their purpose is to "support world-leading research in the social sciences and humanities". The specification that the research be "world-leading" may, however, indicate some degree of conditionality, though at the time of writing this could not be confirmed.

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NSERC's funding is split between $8 million for grants supporting advanced research and $5 million for NSERC's Strategy for Partnerships and Innovation. In addition to the $16 million in permanent funds, CIHR will also receive a one-time infusion of $10 million to set up a clinical trials network for the purpose of "moving research on isotopes and imaging technologies into clinical practice". This is one of a series of government measures to diversify the supply of medical isotopes in the wake of the problems at the Chalk River reactor.

As in previous years, granting council funding this year has also been accompanied by a proportional change in funding to the Indirect Costs of Research Program. The $32 million increase in granting council funding is also the cause of an extra $8 million/year for this program. However, when considering the $15 million reduction in funding that was announced last year, the net effect is still a reduction of $7 million.

Of greater import – at least in relative terms – is the extra $15 million per year in permanent funding which the Government has decided to invest in the College and Community Innovation Program, a sum which doubles the current budget. The program, which promotes research collaboration between community colleges and polytechnics and small and medium enterprises, is clearly seen by the Government as being well suited to improve national competitiveness – a view which they do not always hold with respect to some of their university-based research funding.

Increases in Transfers to Provinces

As expected, transfer payments to the provinces were held constant in this year's budget. Total Canadian Social Transfer (CST) spending increased from $10.9 to $11.2 billion, which is in line with the three-percent automatic annual escalator introduced in the 2007 budget to compensate for inflation and population growth. Of the additional $300 million in CST funding, $100 million is allocated for post-secondary education, also representing a 3% increase. Predicted increases for future years also follow this steady trend.

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Total CST Cash Support

(millions of dollars)

	2007–08	2008–09	2009–10	2010-11
Support for Children	1,100	1,100	1,133	1,167
Post-Secondary Education	**2,435**	**3,235**	**3,332**	**3,432**
Social Programs	6,202	6,202	6,388	6,579
Total	**9,737**	**10,537**	**10,853**	**11,179**

Note: Totals may not add-up due to rounding. These figures do not include funding of $250 million for development of child care spaces in 2007–08, as the funding has been provided outside the CST in that year, and does not include budget 2007 transition protection payments. These figures also do not include budget 2008 transition protection payments to Saskatchewan and Nunavut.
Source: Department of Finance 2010

However, just because there is an increase in the CST does not mean all provinces will receive a net benefit from this increase. The reason for this lies in adjustments to the CST that were made in the 2007 budget. In that year, both CST and the Canada Health Transfer were turned into strict per-capita transfers, a move which favoured Ontario and Alberta, but disadvantaged the Atlantic provinces, Manitoba and Saskatchewan. These six provinces received temporary protection payments to smooth out their transition to the new funding scheme, but these payments only top-up funding to 2007-08 levels and are not permanent. Through supplementary funding arrangements will be put in place to ensure that no province receives less money across all transfers (i.e. CST, CHT and Equalization), not all provinces will be equal net beneficiaries of the CST increase.

Continuation of the Knowledge Infrastructure Program

The 2009 budget's largest announcement was a commitment of up to $2 billion in infrastructure spending from 2009-2011 ($1 billion spent annually) through what became known as the Knowledge Infrastructure Program (KIP). This program was largely a job creation project for the construction industry, but its intent was also to repair and modernize Canada's universities and colleges. Though no new funding has been allocated this year beyond what was announced in 2009, this measure remains the largest PSE-related spending item in the 2010 Budget.

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To date, the government has agreed to fund 536 university and college KIP projects. Of these, 20 have been completed and 361 projects are underway. All funding available from the federal government has been pledged ($1.99 billion), and this has been matched by $2.97 billion of other funding, primarily from the Provinces and Territories.

Measures for Individuals

Changes in Funding to Post-Docs

As part of its goal to make Canada a magnet for scientific talent, the government announced a new post-doctoral fellowship program in order to keep the growing number of talented graduate students and post-doctoral fellows in Canada. This budget allocated $45 million over five years to the granting councils to establish prestigious fellowships that will attract and retain top-level talent. These fellowships will be internationally competitive and valued at $70,000 per year for a two year period. This was a measure that had been heavily lobbied for by the university community, and though the amounts invested were less than the university community hoped, the new funding in this area seems to be an especially significant achievement given the size of the current budget deficit. The budget also touts funding for the Vanier Canada and Alexander Graham Bell Graduate Scholarships, but these are simply re-announcements of funds committed in the 2009 budget.

However, not all the measures for post-docs will be to their benefit. Deep in Annex 5 of the Budget is a “clarification” of the 2006 Budget Act provision that made all post-secondary scholarships and fellowships tax-free. The Government is tightening this provision to only include scholarships and fellowships for students enrolled in programs that lead to college/CEGEP diplomas, or Bachelor’s, Master’s and Doctoral Degrees. Fellowships for post-docs are thus excluded from this provision and will henceforth be taxable. This could result in significant losses of net income for post-doctoral students. In partial recompense, post-docs will be able to claim the Education Tax Credit of $400/month.

Youth Employment

The Government has put together an interesting grab bag of five measures under the rubric of Youth Employment, one of which (relating to Pathways to Education) we deal with below. Of the remaining four, one – a measure to increase spending on aboriginal K-12 education – is only tenuously connected with the labour market. The other three are more directly concerned with helping alleviate conditions for youth during a period of record youth unemployment.

The budget introduces two youth employment measures. The first is a one-time $30 million allocation for the 2010-11 fiscal year to HRDC's "Skills Link" program, which essentially targets at-risk youth (secondary school drop-outs, youth from rural/remote areas and Aboriginal youth). The second is a similar one-time $30 million increase in funding to HRDC's Career Focus, which is essentially a subsidy to employers who wish to provide career-related work experience to recent college and university graduates. While no doubt a welcome boost for youth hiring, this kind of employer subsidy has a mixed history; in some cases, they increase hiring, while in others they simply provide windfall financial rewards to employers who were going to hire youth anyway. A post-mortem study of program effectiveness will be essential to retrospectively observe whether this measure is in fact a savvy way of supporting students.

Finally, Budget 2010 also allocated $10 million for a one-time investment in the Canadian Youth Business Foundation (CYBF), a charity which provides entrepreneurial youth with start-up financing, mentorship, and other resources for their business ideas. The funding, which is being paid out of current (i.e. fiscal 2009-10) funding, is designed to create a loan fund which the CYBF estimates will help create 500 new businesses, and in turn, these businesses should create roughly 6,000 jobs. CYBF loans must be repaid with interest and current repayment rates are about 94%; as a result, CYBF expects this fund to last for many years.

Pathways to Education

Though there is nothing in the budget relating to student assistance of the Canada Student Loans Program, there is still some interesting movement on the Access front. The Government is now promising support to Pathways to Education Canada (www.pathwayscanada.ca), an early-intervention program which was first implemented in Toronto's Regent Park neighbourhood in 2001 and has since been expanded across the country. This program operates by combining mentorship, financial, and academic support.

The real news here is that the Government of Canada is interested in broadening its access concerns to address barriers other than finance. As the social science on access has improved over the past decade, it has become abundantly clear that finances are no longer – if they ever were – the primary barrier to access to PSE. Rather, it is precisely the attitudinal and achievement issues which Pathways targets that form the main barrier, especially for students from lower-income backgrounds.

That said, there are two salient concerns regarding this measure. The first is whether or not Pathways is quite all it's cracked up to be in terms of achievement, cost effectiveness and the ability to be replicated. Though the anecdotal evidence around the program is impressive, the program has never, so far as we can tell, submitted itself to an external examination of its effectiveness, and the internal evaluations don't stand up to some basic tests of social science. That doesn't mean Pathways is a bad program – in many ways, it ticks most of the boxes that researchers think are important in terms of supporting access. It does however mean that the evidence of its success is no better than, for example, the Future to Discover program which the Canada Millennium Scholarship Foundation ran in Manitoba and New Brunswick, or the Lenonet program which it ran in partnership with the University of Victoria. Given this, it's not at all clear why Pathways is the one receiving new funding.

The second concern is with respect to the actual amount being allocated to the project. Although the budget headline reads that the government is "allocating $20 million" to Pathways, a closer look at the budget tables suggests that the actual figure is $8 million over two years. Possibly, the $20 million refers to a longer time horizon than just 2010-2012; however, the wording of the announcement may imply that in fact the money is part of a matching scheme, with the Government putting up 40% and other partners (private sector, other governments, NGOs and communities) providing the remaining $12 million.

Aboriginal Post-Secondary Funding

Though this year's budget contained no specific measures relating to Aboriginal post-secondary education, it nevertheless included an important announcement relating to the Government's intentions with respect to the $310 million Post-Secondary Student Support Program (PSSSP).

Historically, this program has been run by transferring funds to individual First Nations and allowing them to allocate money to their members according to their own guidelines; Indian and Northern Affairs Canada (INAC) set some broad limits and guidelines on the program, but the method of rationing assistance could differ significantly from place to place.

A series of recent studies and audits have criticized the way this money is managed by INAC. The audits have not focused so much on injustice or malfeasance in the administration of money by First Nations as they have on the lack of clear direction, accountability and success metrics within INAC itself. Nevertheless, the Government of Canada has been casting around for an alternative to this method of running the program. Last year, HESA President Alex Usher was asked to write an options paper on PSSSP for INAC, entitled *The Post-Secondary Student Support Program: An Examination of Alternative Delivery Mechanisms.*
(http://www.higheredstrategy.com/publications/2009/INAC-paper-final.pdf)

The relevant passage in the budget reads:

> *In addition, the Government will engage in a new approach to providing support to First Nations and Inuit post-secondary students to ensure that students receive the support they need to attend post-secondary education. The new approach will be effective and accountable, and will be coordinated with other federal student support programs.*

Our understanding is that Cabinet has not, in fact, yet taken a decision on the PSSSP; as a result, this statement is essentially a placeholder for a future announcement. If so, the Department of Finance has chosen some unfortunate wording. The statement that the program will be "co-ordinated with other federal student support programs" could be read to mean variously that the program will be run on a need-basis as opposed to the current non-need tested system; or that it will be run by Human Resources and Skills Development; or that it will be run primarily as a loan program. The last option seems unlikely (or, at the very least, incredibly ill-advised), but it doesn't take an expert in Aboriginal affairs to see how First Nations might come to the conclusion that this is what the Government has in mind. Expect significant fireworks on this policy issue over the coming months.

Conclusion

One key lesson to take from the 2010 budget is that the Conservative government can no longer be credibly described as an "old economy" party, concerned more with resource industries than with the emerging world of high-tech. Though the amounts spent on PSE were small, the overall focus on innovation and the fact that many of the very small number of new programs announced in this budget were connected with innovation is an indication of how far the Government has come in the last five years. Though they have a focus which is slightly more commercial and slightly more "hard science" than the previous government, most of the announcements on PSE in this budget would have fit easily into one of the Chrétien-Martin budgets of the turn of the Millennium. Any ideological gap between the parties on the subject of innovation is now very hard to discern.

The second – and perhaps more important - key lesson of the budget is the need to come to terms with the country's reduced circumstances. Though in recent years the higher education sector has become used to budget nights delivering a variety of new and often quite expensive measures beneficial to the sector, the relatively small size of the amounts received this year ought to be considered the new 'normal'. Even if the government is treating the sector well in a relative sense, the scope for providing large amounts of money in an absolute sense is shrinking. Money for PSE through transfer payments seems secure, but given the overall fiscal framework, new monies for research, student aid and internationalization will be very hard to come by for the next four years. From here on in, "Good News" budgets will primarily be characterized by an absence of Bad News. That's the New Normal, and the sector needs to get used to it.

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