CANADIAN EDUCATION PROJECT

The 2012 Federal Budget:

A Canadian Education Project Commentary

The Canadian Education Project is part of the Higher Education Strategy Associates.

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Introduction

On March 29, 2012, Finance Minister Jim Flaherty rose in the House of Commons to deliver the Conservative government's seventh budget and the first to be designed entirely from the position of a majority government. The budget had been heavily foreshadowed as being one of austerity, and trying to bring Canada's finances back into balance following three years of large deficits in the wake of the Global Financial Crisis.

The big news in the budget was the raising of the eligibility age for Old Age Pensions and the surprise decision to drop the penny. The budget also, however, conducted a major overhaul of the country's innovation system and set an important long-term framework for federal-provincial transfers. And finally, it hinted at some cuts – as yet unspecified, though details are apparently on their way in the coming weeks – which may affect some key government departments. All in all, it was a budget which was surprisingly heavy on PSE-related topics.

Changes in Support to Innovation

The key to understanding the 2012 budget lies in the Report of the Review of Federal Support to Research and Development (Jenkins Report), which reported last October. One of the key conclusions of that report was that Canada put too much emphasis on indirect tax expenditures (i.e., business tax credits), and not enough on direct support for innovation in other areas. The Conservatives have taken this recommendation to heart, cutting $500 million from the Scientific Research and Experimental Development (SR&ED) tax credit, but increasing support to innovation by substantially more than that.

SR&ED Tax Credit

The credit is being snipped in four different directions. First, the investment tax credit rate is being reduced from 20% to 15%. Second, capital expenditures are henceforth excluded from the credit. Third, the allowable overhead rates that are eligible for the credit are being reduced. The fourth is a convoluted – and no doubt ludicrously complicated to implement – measure which prevents SR&ED credit recipients from claiming the portion of the value of any sub-contractor's

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work which is "profit." This seems to be a way of limiting the amount of SR&ED money which ends up in the hands of tax advice consultants such as Deloitte. All told, these cuts will reduce tax expenditures by $500 million/year by 2016-2017; however, savings in the first few years are more modest - $35 million next year and $315 million in 2013-14.

Support to Business for Innovation

Although not strictly speaking in place of SR&ED credits, the government announced a number of new innovation-related allocations to spur private-sector innovation spending, including:

- $400 million for venture capital activities in the private sector, as well as an additional $100 million for the venture capital activities of the Business Development Bank of Canada
- $110 million per year to the National Research Council to double the size of the Industrial Research Assistance Program.
- An additional $67 million in 2012-13 for the National Research Council to "concentrate on active business-driven, industry-relevant applied research." The budget indicates that this new focus on "demand-driven research" will be developed "in consultation with businesses and university and college stakeholders."
- $95 million over three years (starting in 2013-14), followed by $40 million per year afterwards, to make the Canadian Innovation Commercialization Program permanent, and add a military procurement component. This program essentially funds government purchases of innovative projects from small and medium enterprises.
- $105 million over two years for innovation and market development support to the forestry sector.
- An announcement of a Western Innovation Program to provide financial support to innovation small and medium enterprises in Western Canada (no price tag was attached).

Support for Business-PSE Linkages

Two initiatives to bolster the government's ongoing goal of having academic researchers and businesses play together more often were also unveiled. The first of these is a permanent $12 million/year allocation for the Business-Led Networks of Centres of Excellence program, which currently supports networks in Sustainable Technology, Green Aviation, Pharmaceuticals, and Forest Nanoproducts (no, we don't know what this is either, though we lean towards a bonsai interpretation). The second is a $14 million investment over two years to double the size of the Industrial Research and Development Internship program. The program helps 1,000 graduate students and post-doctoral fellows to undertake research projects in the private sector. Both of these two initiatives echo a theme of last year's budget – namely, that there is insufficient flow-through of research from the post-secondary sector to private businesses.

Support for Science

Genome Canada will receive an additional $60 million "to launch a new applied research competition in the area of human health, and to sustain the Science and Technology Centres until 2014-15." The Canadian Institute for Advanced Research will receive $10 million over two years to continue its work bringing together Canadian and international researchers. The government also announced a few targeted science-related infrastructure investments. The largest of these is $107 million over two years to Atomic Energy of Canada Limited to safeguard the continued supply of medical isotopes from the ever-aging Chalk River laboratories (at 67 years of age, they are still eligible for Old Age Support, even under this new budget). Forty million dollars over two years was awarded to CANARIE, the non-profit that maintains an ultra-fast fiber optic network for the research and education community. Natural Resources Canada will also receive $23 million over two years to update its satellite data reception facilities and develop a new data management system.

Support for the Canada Foundation for Innovation (CFI)

The Government also announced a $500 million investment in CFI, spread over five years. Historically, $100 million/year is actually a relatively small investment for CFI; however, the Foundation is still owed deferred contributions on past investments of well over half a billion dollars. Add to that the $1.7 billion in assets which the Foundation listed in its 2011 accounts, and it seems CFI is unlikely to have money worries anytime soon.

Support for Stuff the PMO Feels like Supporting

In addition to all of the aforementioned innovation projects, there are the specific hand-picked scientific initiatives which get funded outside the regular Tri-council processes, by fiat of the Prime Minister's Office, which sometimes seems to act as a kind of unofficial "Fourth Granting Council." In this budget, such projects include:

- $5.2 million for the development of a Canadian Depression Research and Intervention Network, connecting 80 depression researchers nation-wide, with a focus on suicide prevention and post-traumatic stress disorder.
- $6.5 million will go to a specific unnamed health research project at McMaster University, which will "evaluate ways to achieve better health outcomes for patients while also making the health care system more cost-effective, through greater implementation of medical teams."
- $17 million will go to Natural Resources Canada over two years to bolster the $35 million announced in 2010 for research in to alternatives to reactor-based medical isotope production.
- And a rather vague commitment to "continue to partner with" the Rick Hansen Institute as it works to improve treatments for spinal cord injuries.

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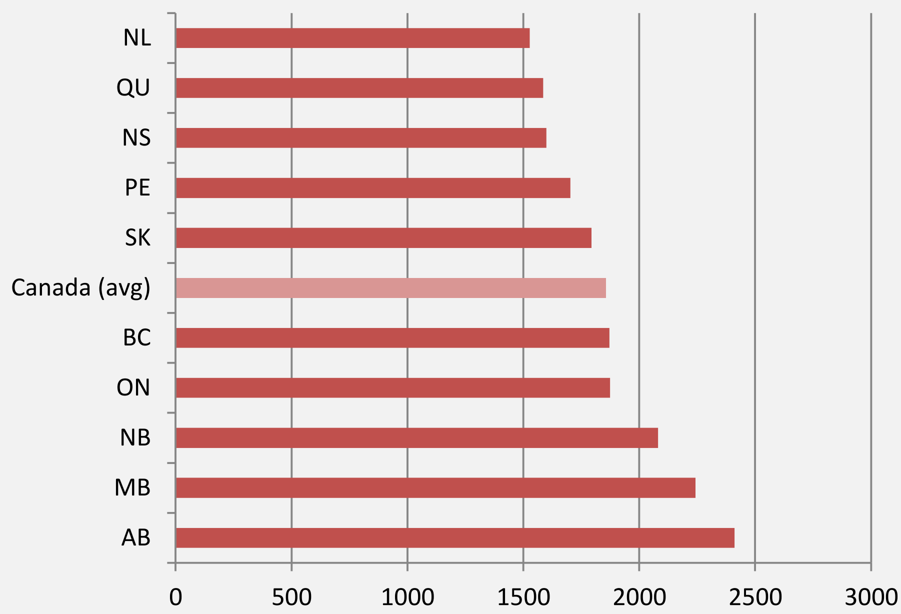
Changes to Intergovernmental Transfers

The current framework for transfers dates from the 2007 federal budget. In that year, a 25% portion of the Canada Social Transfer (CST) was notionally carved out as being for post-secondary education. Also in that year, the CST (and its component PSE share) was put on a 3% annual escalator through to 2013-14. There had been concerns that this escalator might be at risk in the current climate of austerity; however, the 2012 budget committed to renewing current CST funding arrangements through 2014-2015 "and subsequent years," with a promise to review the program in 2024. While it is clearly meant to imply a ten-year commitment, the wording seems to leave a lot of wiggle room.

Because CST funding is calculated on a per-capita rather than a per-student basis, provinces with below-average proportions of students enrolled tend to do very well out of CST funding. Figure 1 shows the disparities in funding-per-student distributed through the CST.

Figure 1: Dollars per student (CST only)



Changes in Program Spending

Granting Councils

The situation with respect to granting councils is – as is frequently the case under the Conservatives – somewhat complex, containing a mixture of both cuts and new investments.

In terms of new investments, NSERC is to receive $15 million in 2012-13 for the new Strategy for Partnerships and Innovation. CIHR will get $15 million for the Strategy for Patient-Oriented Research. SSHRC will receive $7 million to support industry-academic partnership initiatives.

However, at the same time, NSERC, CIHR and SSHRC are receiving equivalent cuts of $15 million, $15 million and $7 million respectively in 2012-13, and will be asked to cut the same amount again in 2013-14 – as a result, council budgets will remain constant this year but decline next year (see Table 1, below). The budget document does not clearly explain how the cuts will be applied. All it contains is a statement that "programming in support of basic research, student scholarships, and industry-related research initiatives and collaborations" will be preserved, which strongly suggests that the cuts will land mostly on the administrative side.

Table 1: Planned Savings and Investments Relative to Baseline, Granting Councils, Budget 2012 (in millions of dollars)

	2012-2013			2013-2014		
	Cuts	New Investments	Net	Cuts	New Investments	Net
NSERC	15	15	0	30	15	-15
SSHRC	7	7	0	14	7	-7
CIHR	15	15	0	30	15	-15

Amounts presented are cumulative, relative to the 2011-12 baseline.

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However, there remain substantial programs of support which lie outside the protected zone described above. For example, SSHRC spends $71 million each year on research networking, internal services, targeted research & training initiatives, and research dissemination & knowledge translation, none of which obviously fall under the "protected" categories. Similarly, NSERC spends $9 million/year on the Collaborative Research and Training Experience program, which supports the development of professional and personal skills. It is these types of programs that appear the likeliest candidates for cuts.

Youth Employment

The 2012 budget provides an additional $50 million over two years for the Youth Employment Strategy (YES), in addition to its existing annual budget of more than $300 million. However, this extra funding will not support existing YES programming in terms of (for instance) additional funding for summer employment; rather, it will focus on "connecting young Canadians with jobs in fields that are in high demand." It is not clear what this means or how this additional money will be spent as a result. One suspects that "fields in high demand" is code for skilled trades, but there is no way to confirm this at present.

Also of note here is the announcement that the youth volunteer organization Katimavik, which currently receives the equivalent of about $14 million/year from the Government of Canada, will not have its funding renewed when the current support agreement runs out in 2013.

Aboriginal Education

As was widely expected, the government did announce plans to invest $275 million over three years to support First Nations Education and build and maintain schools on reserve. This is a substantial investment, thought it falls well short of the $500 million recommended by the Assembly of First Nations. No announcements were made with respect to Aboriginal post-secondary education. Though the 2010 budget pledged the Government to "*engage in a new approach to providing support for First Nations and Inuit post-secondary students…[which] will be effective, accountable and will be coordinated with other federal student support programs*," no changes to the Post-Secondary Student Support Program have yet been made by the Conservative government.

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Registered Education Savings Programs (RESP)

Typically, contributions to a Registered Education Savings Plan are used by individuals when they enroll in post-secondary education. When students do not pursue post-secondary education, the interest earned in the RESP is taxed (at the individual's regular tax rate plus 20%), and the matching Canada Education Savings Grant must be transferred to a sibling (if they have grant room available) or must be repaid.

The 2011 budget introduces a stipulation that in cases of individuals with severe disabilities who have an RESP in their name but do not pursue post-secondary education, unused amounts from the RESP can roll-over their investment income tax-free into a Registered Disability Savings Plan (RDSP). The amount transferred may not exceed the individual's RDSP contribution room, and the value of any accumulated CESGs must still be repaid to the federal government.

This measure is expected to result in roughly $1 million of lost revenue.

Foreign Credential Recognition Program

The 2012 budget continues its support, without offering any extra funding, to the Pan Canadian Framework for the Assessment and Recognition of Foreign Qualifications for which it provided funding in the 2009 budget. The budget also includes support for the Foreign Credential Recognition Loans Pilot. This $18 million three-year pilot project will make it easier for internationally trained professionals to have their credentials recognized and find jobs in their fields. Funding will be provided to community-based partners—such as non-government and non-profit organizations—to increase their capacity to deliver financial assistance to eligible professionals.

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The Sword of Damocles: Unspecified Cuts to Come

Prior to the budget, Minister Flaherty indicated that while the budget would outline multi-billion dollar departmental spending cuts, it would not contain "specifics." True to his word, the budget shows on a department-by-department basis how $5.2 billion of savings will be reached, but does not specify how these savings are to be attained. Details will apparently emerge "over the next few weeks."

Of particular importance to the PSE community are:

- The Department of Human Resources and Skills Development, which provides more than $3 billion in student loans, grants and education savings grants, will face cuts of $183 million, with the largest cuts coming in 2014-15. The budget discusses savings realized through streamlining, modernization and consolidation of internal services and practices.
- Statistics Canada, which is the central source of our education statistics system, will have its budget cut by $33 million over three years. The budget declares cryptically that Statistics Canada will do this by "responsibly managing" its activities, without further elaboration.
- The National Research Council of Canada will face cuts of $16.3 million. As with the granting councils, there is a promise that "basic research, scholarships and industry collaboration" will be preserved.

Table 2: Planned Savings, Organizations that Support Students and Research, Budget 2012 (in millions of dollars)

	2012-13	2013-14	2014-15	Total
HRSDC	6.3	33.1	143.8	183.2
Statistics Canada	8.3	10	15.6	33.9
National Research Council of Canada	1.3	15	0	16.3

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Conclusion

Though other sectors may look enviously at higher education and its continuing ability to secure federal investment dollars, this wasn't really a "higher education budget." It was primarily a budget that remakes several facets of the country's innovation system with a view to making them more efficient and more likely to spur private-sector growth. Anything that happens to higher education in this budget is simply a byproduct of this.

This year's budget was only the third of the eighteen since the Martin Budget of 1995 *not* to feature any new spending on students or apprentices; and two of these three have occurred since 2010. There appears to be a significant shift in emphasis away from transfers to individuals for purposes of affordability and toward transfers to educational institutions and businesses for the purpose of promoting innovation. And within this focus on innovation, there is an ever-increasing emphasis on spurring the mobilization of knowledge for the purpose of economic growth.

One would not have guessed at this shift a few years ago. The first few Conservative budgets were almost indistinguishable from Liberal ones in the way money was spent in the PSE sector on loans, grants and tax credits. But it is a colder world now. The federal government is viewing the sector with a steelier eye and asking hard questions about how PSE investments can best help the economy as a whole. The landscape has changed, and stakeholders need to adapt.