The 2015 Federal Budget:

An analysis from Higher Education Strategy Associates

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INTRODUCTION

On April 21st 2015, Finance Minister Joe Oliver rose in the House of Commons to deliver his first budget, and the eleventh budget of the Harper Government. With elections likely this fall, the budget seems sure to be the last of this Parliament and hence can be seen as something of an election manifesto for the governing party. Having long promised a budget in balance (the first since 2008), but squeezed by falling oil prices, this was always likely to be a budget that was fairly parsimonious on new spending.

Though the big news items in the budget related to the overall balance and help for seniors, there were a surprising number of measures related to post-secondary education. The most obvious win for the sector was in student assistance, where another $115 million per year will be spent to expand aid eligibility in various ways. There are also a number of interesting new investments on the skills front. Research, on the other hand, is a much more mixed bag; there are a number of new investments, but in many cases (CFI, for instance) they represent significant declines on what existed previously. The following pages detail the budget's many post-secondary-related measures in detail.

STUDENT AID

Expansion of Canada Student Grants eligibility

The federal budget calls for the allocation of $184 million over four years – or an estimated $50 million per year by 2019-2020 – to expand Canada Student Grant eligibility to students in "short-duration" programs. This is the first major change made to the Canada Student Grants program since its introduction in 2009.

Currently, only students in programs that are at least two years (or 60 weeks) in duration are eligible for grants that provide either $250/month or $100/month, to students from low- or middle-income families, respectively.

Today's announced expansion extends the Canada Student Grant for Low Income Students (CSG-LI) and the Canada Student Grant for Middle Income Students (CSG-MI) eligibility to students in programs with a minimum duration of 34 weeks, or typically one academic year. Initially, students in one-year programs were excluded from these two CSG programs to keep grant funds away from private career colleges (PCCs). In many parts of the country, PCCs are seen as the stronghold of short-duration certificates; that said, they also historically face high drop-out rates, and their students and graduates experience relatively high Canada Student Loan default rates. This discussion diverges from past positions of Employment and Skills Development Canada, which may be a result of the fact that CSLP default rates for borrowers from PCCs have dropped substantially over the past decade and are now closer in line with default rates for borrowers from public institutions.

While today's change opens up CSG eligibility to students in one-year Master's degrees and the growing assortment of one-year graduate certificate programs at universities and colleges, the primary beneficiaries of this expansion will be students in programs at PCCs. The federal budget estimates that overall, this expansion will help an additional 42,000 students per year, with just over half of those students at PCCs. While many students at PCCs are in short programs that will remain ineligible for CSG-LI and CSG-MI, close to a fifth of students at private career colleges were in programs between 13 to 23 months in length, according to a 2008 R. A. Malatest survey.

This budget announcement, however, does not affect eligibility guidelines for the other three programs in the Canada Student Grants suite – namely, the grants for students with dependents, part time students, and students with permanent disabilities. These grant programs have always been available to students in short-duration programs. That said, the vast majority (nearly 75%) of funds provided to the 357,000 students who received Canada Student Grants in the 2012-2013 academic year were provided in the form of CSG-LI and CSG-MI.

Changes to Canada Student Loans Program need assessment guidelines

In addition to the Canada Student Grants announcement, this budget introduces two somewhat unexpected changes to the Canada Student Loans Program, aimed at making it easier for students to qualify for government student financial aid. In particular, these changes are targeted at increasing PSE affordability for the middle-class and recognizing the student aid-related challenges of balancing school and work.

Moderate Standard of Living changes

The first of these changes targets dependent students (those who have been out of secondary school for four years or less) from middle-income families. Specifically, the budget proposes increasing the income threshold – known as the Moderate Standard of Living (MSOL) - at which families are expected to contribute to their child's annual post-secondary costs. Increasing this threshold means that fewer families will be expected to contribute to educational costs, and more students will receive loan funding. To fund this initiative, $119 million will be provided over four years, beginning in 2016-17, with an estimated yearly cost of $33 million at maturity.

However, the exact changes to MSOL values have not been explained in the budget announcement. Based on the example provided in Page 157 of the Economic Action Plan 2015, the parental income threshold for the example student's family has been increased by about 15% above today's MSOL thresholds.

In addition, the interaction between increased MSOL thresholds and Canada Student Grant eligibility guidelines have not been fully explained. Presently, MSOL thresholds and eligibility thresholds for the middle-income Canada Student Grant are one and the same, where students with family incomes below the Moderate Standard of Living threshold receive a Canada Student Grant. Raising the MSOL threshold without changing its relationship to CSG eligibility means that the estimated 92,000 students affected by this change would be eligible for both increased non-repayable aid as well as greater loans. In this circumstance, CSLP program expenditures would increase by at least an additional $18 million on grant expenditures alone.

Another detail with important consequences is that the expansion of eligibility for CSLP will, in general, place greater demands on provincial student aid programs – as more students become eligible for federal aid, they will also become eligible for provincial aid. The effects will differ by province, and remain to be seen.

Changes to in-study income contribution

The Economic Action Plan 2015 also proposes to eliminate in-study student income from the CSLP needs assessment calculation. Currently, students who work while they are in school and earn more than $100/week face a clawback of their federal loan amounts. Given the nature of part-time work, the in-study income penalty can make estimating aid amounts unpredictable for students who choose to combine school and work. An estimated 87,000 students would receive larger loans as a result of this change to the needs assessment process, with an estimated yearly expenditure increase of $32 million.

The government's decision to remove in-study income from the student loan assessment process represents a considerable victory for CASA (Canadian Alliance of Student Associations), for whom this portion of the need assessment algorithm has been a longstanding concern.

A note on costing

In the past, budget estimates related to SFA spending have fallen short of actual expenditures, most notably with the 2008 Budget's estimates for the Canada Student Grants program. Arriving at an accurate estimate of any change to CSLP's offerings is difficult for a few reasons.

First, there are a variety of costs that accompany increasing CSLP eligibility beyond simply giving borrowers funds; they include set-asides for loan defaults and increased administration costs. Additionally, the costs of increased eligibility are driven by the balance of marginal increases in loan funding versus grant funding. As well, given that the government typically takes a ceteris paribus approach in developing cost estimates, additional costs related to increased student uptake are likely not included.

With very little information on what assumptions are driving Budget 2015's CSLP cost estimates, it is difficult to assess whether they are realistic, but it is probably safe to assume that these estimates are at the lower bound of likely costs.

Commitments to Aboriginal PSE access

Although not central to Budget 2015 in the way it was several years ago, Aboriginal post-secondary education is also featured in this Budget's PSE access-related measures. In particular, the Budget allocates an additional $12 million to Indspire (formerly the National Aboriginal Achievement Foundation) for post-secondary scholarships and bursaries for First Nations and Inuit students. Indspire, an Indigenous-led registered charity, will receive an initial allotment of $2 million in 2015-16, and will then receive $5 million for each of the next two years. This initiative builds on a previous investment outlined in Budget 2013, which allotted $10 million over two years towards Indspire scholarships. Budget 2015 stipulates that at least $1 million of these additional funds will be devoted to supporting students pursuing an education in the skilled trades.

Skills

There are two major new skills-related initiatives in this year's budget. The first is a one-off, $65 million allocation, starting in 2016-17, to support businesses and 'willing' post-secondary education partners to better align their programs and curricula with the needs of employers. Significantly, the money is to be channeled through 'groups of employers and industry organizations' rather than through post-secondary institutions.

The government anticipates that the first phase of implementation will see Siemens Canada working in partnership with Canadian Manufacturers and Exporters – Canada's largest industry association – and with post-secondary institutions. Further partnerships, could emerge in areas such as mining and forestry.

It is not immediately clear how the money will be administered: e.g. on what basis companies will be eligible. However, the potential for promoting innovation and alignment of post-secondary programs and curricula with the training needs of particular economic sectors will make this an interesting space to watch.

A second major initiative is one which will promote labour market programming for Aboriginal communities: $215 million over five years, beginning in 2015-16, and $50 million per year thereafter, to the Skills and Partnership Fund, which is directed toward skills development and training in 'high-demand' sectors of the economy. The fund, originally unveiled in 2010 and administered by ESDC, aims to provide 'project-specific training' for Aboriginals linked to labour market demand. The allocation is in addition to the $350 million annual contribution to the Aboriginal Skills and Employment Training Strategy. A further $33.5 million is to be provided over five years, commencing in 2015-16, for 'administrative support' for Aboriginal labour market programs and for the piloting of an on-reserve labour market information pilot project.

Apprenticeship also gets a nod this year: in practice, the emphasis falls mainly on continuing efforts to harmonize apprenticeship training and certification in targeted Red Seal trades. In addition, $1 million – over five years – is intended to promote adoption of the Blue Seal program across Canada, an initiative aimed at providing business skills to newly–minted journey-men and women.

There is also some funding allocated – more precisely, redirected – to enhancing labour market information, a key concern of employer groups and strongly advocated by Polytechnics Canada and Colleges and Institutes Canada. They will be pleased, no doubt, but not excessively so: $4 million is to be re-allocated, over two years, to support the establishment of a new, national 'one-stop labour market information portal.'

RESEARCH

Granting Councils

The story for granting councils is simple: **No New Funding**, at least in the immediate term. Although Budget 2015 proposes additional funds of $37 million to the three granting councils (CIHR, NSERC, and SSHRC), in the now-familiar 2:2:1 ratio, there is one important caveat in this year's budget: additional funds will not become available until next year, in 2016-17.

With no new funding this year, allocations will continue at the Budget 2014 level of $2.7 billion, combined. The funding split between the three granting councils will be allocated in (what has become) traditional fashion: with NSERC and CIHR each receiving an additional $15 million, while SSHRC will receive an additional $7 million, as well as $9 million for Indirect Costs programs.

As has sometimes been the case, the government has earmarked dollars for particular research initiatives, focusing on areas that will 'fuel economic growth and respond to important challenges and opportunities.' In this budget, however the government has gone further than in previous years in outlining the specific areas of research interest. Predominantly, research funding will be awarded for targeted and market-driven initiatives. In dispersing 2016-17 additional funds, the requirements for each of the three granting councils will be as follows:

- CIHR: The $15 million dedicated to CIHR in 2016-17, for example, comes with particular requirements. The majority of these funds ($13 million) will be dedicated to expanding the 'Strategy for Patient-Oriented Research,' in partnership with provincial governments, research institutions, and the private and not-for-profit sectors. The remaining $2 million comes with a broader mandate, designed to "better understand and address the health challenges posed by anti-microbial resistant infections."

- SSHRC: The $7 million slated in additional 2016-17 funds are earmarked for Partnership Grants, and will support collaborations between academic researchers, businesses and other partners.

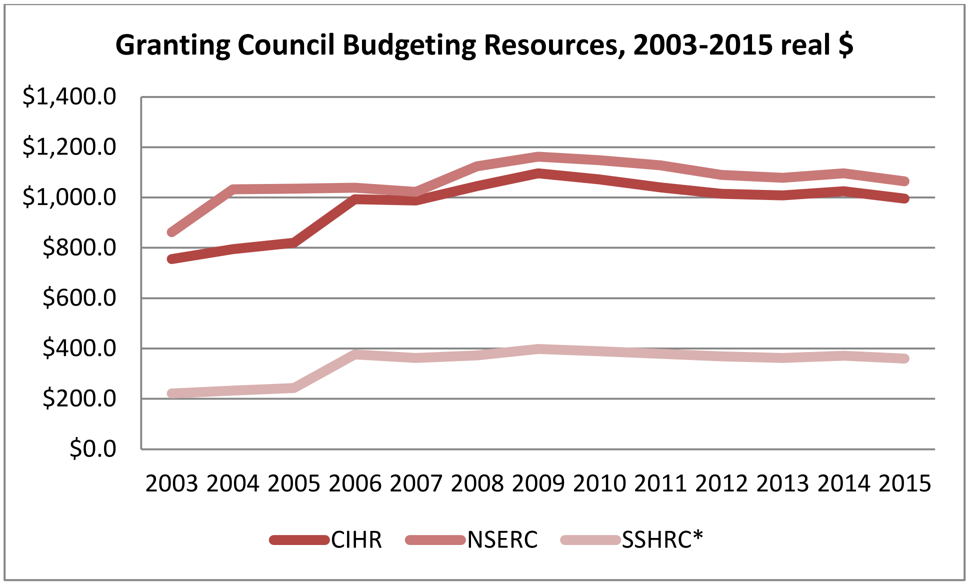
- NSERC: Of the additional $15 million starting in 2016-7, $10 million will be dedicated to collaborations between companies and researchers from universities and colleges under the new consolidated suite of similar business innovation programs.[1] These funds will target research areas such as natural resources and energy, advanced manufacturing, and environment and agriculture. The remaining $5 million will target industry-driven research initiatives at Canada's polytechnics and colleges through the College and Community Innovation Program. [2] In addition, NSERC will continue to support collaborative research in the automotive, manufacturing, forest and fishing industries, as originally outlined in Budget 2008.

One caveat which should be noted is that NSERC appears to have received a de-facto windfall. Specifically, the government has discontinued the NSERC Industrial Research and Development Fellowship program, which costs approximately 6 million per year; however it appears to have left these funds free for NSERC to use at its discretion

Although the government reported no new cuts, the freeze on additional funds means that, in real dollars, the picture is less optimistic. Taking a longer view of tri-council funding, it is clear that after the spike in 2009, funding to granting councils has steadily declined (in real dollars).

[1] These funds come under the umbrella of 'Strengthening the Delivery of Business Innovation Programs.' The Natural Sciences and Engineering Research Council will consolidate its programs supporting research partnerships undertaken by college researchers and businesses with its programs offering similar support for universities. While maintaining existing support for research activities at colleges and universities, this integration of similar programming will offer companies a single window through which they can undertake research collaborations with a university, a college, or both depending on project needs.

[2] This program supports collaboration between colleges and industry on research and development projects that focus on company needs, helping firms to become more innovative and productive



* Excluding indirect costs

In all, CIHR funding has declined by 9.1% since ***its peak in*** 2009, NSERC allocations have fallen by 8.4%, and SSHRC allocations have decreased by 9.4%. ***If one takes a slightly longer view and compares funding to levels seen in the*** first Tory budget in 2006, we have landed more or less where it began when Prime Minister Harper took office. Since 2006, CIHR has enjoyed a 0.3% increase in funding, in real terms; meanwhile, NSERC funding has increased by 2.3% from Budget 2006, while SSHRC has witnessed an overall funding decrease of 4.4%.

Canada Foundation for Innovation

The Canadian Foundation for Innovation is earmarked to receive $1.33 billion in funding over 6 years, beginning with $97 million in 2017-2018, $207 million in 2018-2019, and $270 by 2019-2020. The remaining three years (2020-2021 through 2022-2023) are not specifically listed, but with a remaining allocation of 756 million, the allocations for each of those three years will be roughly $250 million unless increased in future budgets.

The trend of sourcing funds for CFI competitions out of investment income and endowment capital points to long-term constraints on overall CFI funding. This was the case in the 2013 budget, in which a $225 million investment in research infrastructure was announced without an increased funding envelope, instead originating from investment income, forcing CFI to spend down its endowment. In this budget, a smaller but significant chunk of funding ($25 million) is sourced from CFI's investment income to support digital research infrastructure. This pattern is reflected in the rapid decline in the total assets held by the Foundation, falling from a net assets total of $1.7 billion in 2011 to $923 million in 2014.

In recent years, CFI's total expenses on grants have hovered between $400 and $550 million. A long-term funding allocation of $250 million per year means that future competitions will almost certainly decline in size. Despite the large overall funding envelope, this budget appears to represent a decline in the total funding and assets available to CFI – and consequently lower amounts flowing into higher education infrastructure projects compared to previous years.

Industry Relevant Research and Training

The federal government is continuing to encourage business oriented research and development by allocating $56.4 million over 4 years to the Mitacs Accelerate program. Starting in 2016-2017 these will in part fund longer duration internships such as those currently distributed in the NSERC Industrial R&D Fellowship program.

Not all the allocations represent net funds for internships. Importantly, the NSERC Industrial R&D Fellowship program will be wound down—a program which spent $6 million per year on internships. Hence the $14 million per year distributed to the Mitacs Accelerate program represents $8 million in new funding for internships.

In addition to changes to the Accelerate program, The Budget further includes an allocation of $119.2 million over two years to the National Research Council. (NRC) These funds renew previous government commitments, and do not represent additional funds to the NRC.

Lastly, new federal funding for industrial-research partnerships is not limited to domestic parties; the Budget outlines a new initiative to support partnerships with commercial potential between Canada and South Korea. The government hopes to capitalize on South Korea's past successes commercializing research. Funding of $1 million per year begins in 2015-2016.

Other funding in technological infrastructure

- Following investments from previous years, this year's budget continues funding for CANARIE (Canadian Network for the

Advancement of Research, Industry and Education) – a high-speed backbone network with strong ties to a number of Canadian universities. This funding continues at $21 million per year for five years, totaling $105 million in stable, designated funding. Notably, this funding is part of the $1.33 billion allocated to CFI (Canada Foundation for Innovation), with one-quarter ($25 million) of the total originating in unallocated interest earned on CFI's endowment, and the remainder sourced from newly announced funding envelopes for CFI.

- Funding to secure viewing time for Canadian researchers on the planned Thirty Meter Telescope has been announced to the tune of $243 million over the next decade, with $177 million over the first five years. $100 million of this will be reallocated from the existing resources of the National Research Council, the Canada Foundation for Innovation, Western Economic Diversification Canada, the Federal Economic Development Agency for Southern Ontario, Canada Economic Development for Quebec Regions, and Public Works and Government Services Canada.

- The TRIUMF advanced physics laboratory at the University of British Columbia was a big winner in last year's budget, with $126 million allocated over 5 years. This has been augmented in 2015 with an additional $45 million over five years – bringing annual support for this facility to a total of approximately $30 million per year.

- The Chalk River reactor, after a planned decommissioning in 2016 was extended to 2018, will receive up to $72.3 million on a cash basis to maintain safe and reliable operations in 2015-2016. No details on the rationale or basis for this funding are given.

- Funding for the Council of Canadian Academies, a research body whose role is to provide unbiased assessments of public health issues, will continue for the next five years at a rate of $3 million per year – the same annual funding envelope allocated to the Council since 2006. After inflation, this amounts to an effective total decline in funding of roughly 15%.

- Building on previous initiatives, the Canadian Space Agency will receive $30 million in funding for research and technology development through the European Space Agency's Advanced Research in Telecommunications System (ARTES) program. The ARTES program was selected because it is viewed as an ideal forum to enhance commercialization of Canadian space-related innovations.

- The Canadian Space Agency additionally received a federal commitment to continue Canadian participation in the International Space Station mission until 2024. No specific financial commitment was outlined in the Budget.

VARIA

Transfers: As anticipated, federal policy regarding transfer payments to provinces was once again held constant in this year's budget. Total Canadian Social Transfer (CST) spending increased from $12.6 to $13 billion, which is in line with the steady 3% automatic annual appreciation introduced in the 2007 federal budget. Of this $13 billion in CST, 25% is nominally allocated in respect of post-secondary education. This works out to $3.25 billion, an increase of $100 million over the previous year.

Taxes: There are two tax changes of note in Budget 2015. The first has to do with the treatment of capital gains on private shares and property. In Budget 2006, the Conservative government lifted the capital gains tax on the proceeds of sales of publicly-held shares that are donated to charity. In this Budget, they extend the treatment to privately held shares and to real estate. The Budget lists the expected impact at $250 million, which sounds somewhat on the high side; nevertheless we expect this to open up certain new possibilities for post-secondary institutions in terms of fundraising.

The second tax change relates to how the value of education tax credits will affect the Family Tax Cut. It is fairly convoluted, but the upshot is that the tax code will be amended in such a way that such transfers will not affect eligibility for the tax credit.

Internships: Unpaid internships has been a major issue for student groups over the last couple of years. Although the budget outlines nothing concretely, it does contain a proposal to amend the *Canada Labour Code* to strengthen protections related to occupational health and safety, labour standards and industrial relations for all employees and interns under federal jurisdiction.

Conclusion

This budget is a mix of the somewhat good and the moderately disappointing.

On student assistance Budget 2015 takes some important strides towards improving PSE access, and is undoubtedly the most SFA-focused budget since Budget 2008, which introduced the Canada Student Grant Program. The seeds are planted here for a much simpler need assessment process, and one which is much friendlier to dependent students from middle-class families. On the other hand, if you believe student aid needs to become more targeted on poorer students rather than less so, then this budget may be less welcome.

The Budget's stance on skills can best be described as useful, without being either bold or visionary. The focus on responsiveness to the needs of industry, as well as labour market training for Aboriginal peoples, should both be welcomed. They are sensible investments, which for once do not involve windfall transfers to apprentices. Efforts to harmonize apprenticeship training and certification across Canada's provinces and territories, and to improve the availability of labour market information, should also be welcomed, even if the sums of money involved – particularly for labour market information – are a little on the derisory side.

Where the budget seriously fails is on research: though the Tories have made sure they cannot be accused of abandoning research, they are certainly not making it a priority, either. The zero increase for granting councils in 2015-16 will be seen as a slap in the face by the research community. The government's insistence on dictating the minutiae of how to spend funds provided to granting councils (starting in 2016-17) lays bare the its attitude that it knows a lot more about research priorities than do researchers themselves. This does not do the government any credit. It will no doubt point to its six-year $1.33 billion investment in the Canada Foundation for Innovation as 'the largest ever investment in research', but this is sheer puffery: at an average of $222 million in new funding per year, this is substantially below the 1997-2012 average of $370 million per year in funding. This will make it difficult for Canada to maintain its position as a research leader in areas such as science, engineering, and medicine.

In short, it would be churlish in the extreme to accuse the government (as some have done) of having done nothing for the post-secondary sector. There are a lot of other sectors that would love to get as much attention as post-secondary received in this budget. But at the same time, it's difficult not to look at this package – particularly around CFI and the granting councils – and think that as a country, we could have done a whole lot better.