

The 2016 Federal Budget:

An analysis from Higher Education Strategy Associates



Suite 207, 20 Maud Street
Toronto, ON M5V 2M5
www.higheredstrategy.com
P: 416.848.0215
F: 416.849.0500

INTRODUCTION

On 22 March 2016, Finance Minister Bill Morneau rose in the House of Commons to deliver the new Liberal government's first budget.

The Trudeau Liberals had already promised during the October election that their first budget would take the country into deficit by \$10 billion. On top of that, the February economic update indicated that a slow-to-recover economy in 2015 meant that even if the Liberals kept to the previous government's spending framework, the budget would result in a \$12 billion shortfall. So a \$22 billion deficit was effectively baked into the budget. As it turned out, the government's deficit total was \$29.4 billion.

Compared to the previous administration's budgets, this year's effort was far more expansive. It fulfilled most of the government's specific manifesto commitments around post-secondary education, and added significant amounts of spending on top of that. The pages that follow detail the budget's commitments in post-secondary education and related fields.

STUDENT FINANCIAL ASSISTANCE

Budget 2016 represents a major reorganization of student assistance in Canada, perhaps the most significant since 1964. Grants for low- and middle-income students have been expanded significantly. This will be paid for by the elimination of the education and textbook tax credits, and the reversal of certain measures announced by the Conservative government in last year's budget.

The headline story is that all existing Canada Student Grants will increase in value by 50%. The cost of this over four years is expected to be \$1.53 billion

New and Old Canada Student Grant Amounts

Student type	Current amount*	Proposed amount*
Low-income (CSG-LI)	\$2,000/year	\$3,000/year
Middle-income (CSG-MI)	\$800/year	\$1,200/year
Part-time	\$1,200/year	\$1,800/year

*Assuming a 34-week academic year. Thresholds for low- and middle-income vary by province and family-size. The threshold for low-income is equivalent to the low-income cut-off (LICO).

At the moment, the two Canada Student Grants programs operate as a step function. At a family income level one dollar below the cut off between low-income and middle-income a student receives \$2,000/year, at one dollar above, they get \$800. Beginning in 2017-18, the government intends to change the program so that there is a more gradual income phase-out. Costs for this smoothing appear to be subsumed into the \$1.53 billion figure.

In addition to the increases in funding announced today, the government also intends to expand eligibility for the Canada Student Grants program to more middle-income students, at an additional cost of \$790 million, over the next four years. Though details were not immediately available, it seems likely that this would take the threshold for "middle-income" grants to close to \$100,000 in family income.

Cancellation of Economic Action Plan 2015 SFA measures

One of the most important headlines from Budget 2016 is the Liberal government's decision to cancel the student aid-related budget measures promised by the Conservative government in their final budget and using the savings to fund their own plans in this policy area. These cancelled measures, which would have cost over \$80 million per year, included:

- An increase in the "Moderate Standard of Living" thresholds. This would have decreased expected parental contributions for dependent students, and thus increased student loan access for dependent students from middle-income families
- An expansion of the Canada Student Grants program eligibility to include students in one-year college programs.
- The elimination of the in-study income contribution requirement which clawed back income earned by students during the academic year.

Student contributions

Budget 2016 calls for the introduction of a flat-rate student contribution from a student's income and assets. This "flat-rate" is not necessarily a zero contribution; the federal government will work alongside provincial and territorial student aid programs to determine a mutually acceptable flat-rate contribution model in time for the 2017-18 academic year. The upside here is that above the flat rate, students will no longer see their work income clawed back by the need assessment formula; for most, the benefit of this measure is greater than what they would have gained from Budget 2015's now-cancelled elimination of in-study income contributions. The downside is that students who currently earn less than the flat-rate will see their eligibility for aid fall somewhat.

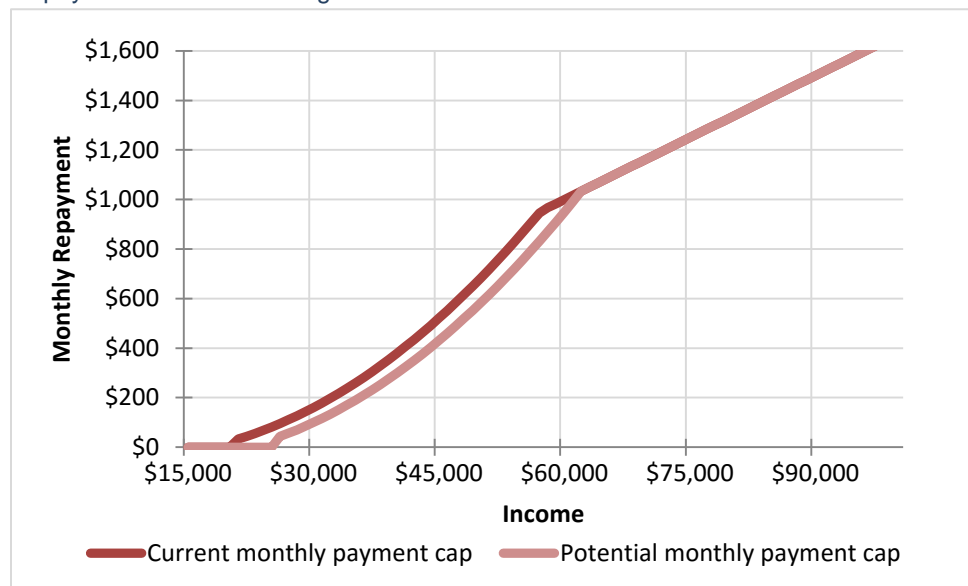
The change student contribution formulas may interact with the announced increase in grant aid in some peculiar ways. As noted above, the announced increase in CSG rates implies that student aid packages will be weighted more heavily towards grants. However, lowering the amount that students are expected to contribute from their earnings and assets increases their need, which may in turn increase their eligibility both for grants and loans. This does not simply affect the balance of students' repayable and non-repayable aid: it also has a non-negligible effect on provincial student aid programs that will now to provide increased funding to students, since total assessed need will now be higher. In many cases, this additional provincial aid will be in the form of loans rather than grants. As with any change to

Canada's student aid infrastructure, there are always unintended consequences.

Improvement of Repayment Assistance Program

The Budget also introduces significant changes benefitting student loan borrowers who are experiencing difficulties managing their debt. The Repayment Assistance Program, introduced in 2008-09, either suspends or reduces Canada Student Loan payments for modest-income earners so that no borrower will be expected to pay more than 20% of their household gross income. Depending on the province, a single borrower with an annual income below roughly \$20,000 would not be expected to make any payments on their Canada Student Loan for five years, unless their income increases. Budget 2016 proposes to increase this threshold to \$25,000 per year. Currently, a borrower with an annual income of \$25,000 would pay no more than \$81/month. The chart below shows a comparison of maximum payment amounts for current and future RAP beneficiaries.

Comparison of current and potential maximum monthly loan payments under Repayment Assistance Program



Notes: Based on a single borrower with a Canada-Ontario Integrated Student Loan who entered repayment with prime at 3.5% and negotiated a repayment term of 114 months; these calculations assume that no changes have been made to the RAP payment determination formula other than an increase in the repayment income threshold. Sources: OSAP repayment calculator, Canada Student Loans Program, authors' calculations

The cost of this change is estimated at \$131.4 million over the next five years, and \$31 million/year thereafter.

Elimination of Education and Textbook Tax Credits

In order to pay for the massive increase in grants that provide immediate aid to students, the Liberal government is eliminating the Education and Textbook Tax Credits, beginning in January 2017. This change will reportedly net a savings of \$105 million in 2016-17 and \$455 million in 2018-17.

It is important to note that the Liberal government is not cancelling the federal Tuition Tax Credit, nor does it affect the availability of any education credits currently offered by provinces and territories. Tax filers will still be able to use previously-earned Education and Textbook Tax Credits until they deplete them.

There is a significant redistributive effect here that is important to understand. All full-time students (or their families) currently receive \$558 per year from the federal Education and Textbook Tax Credits alone – for part-time students the benefit is \$144/year. Every student will be worse off in terms of either their Canada Student Grant entitlement, their federal PSE-related tax credit amount, or both. Some students – particularly those from low-income families who are eligible to receive the largest Canada Student Grants – will see this loss more than offset by the increase in their up-front aid. For example, a low-income student will be better off by $+\$1000 - \$558 = \$442$.

Students who current receive no grant will lose their \$558 in tax credits and receive nothing in return. These are the outright losers of the new system. Middle-income students will see their grants go up \$400 in 2016-17 and potentially more than that afterwards, but will lose \$558 in tax credits starting in the tax year 2017. On the face of it that might look like these students will be worse off, in net terms, by \$158 – however, this analysis is complicated by the fact that the changes are asynchronous – the gain comes in the academic year, the loss in the calendar year. What actually happens to these students will depend on how CSLP manages the elimination of the step-function in 2017-18; as long that ends up benefitting middle-income students by more than \$158, middle-income students will not lose out. Certainly, by 2018-19 when increases are made to middle-income grants we should be in a position where no one currently eligible for a grant is no worse off

A final note with respect to the elimination of tax credits: the cost of these two credits is estimated at \$895 million in 2016 and \$925 million in 2017, according to the Department of Finance's latest tax expenditure tables. However, the savings from getting rid of these credits is listed as a mere \$445 million for 2017, or less than half the program cost estimate. The difference is mostly explainable by the fact that not all credits are used in the year they are issued, because the credits have a carry-forward provision. That said, the most current estimates is that only 40% is carried forward, which implies that savings in 2017 should be closer \$555 million, not \$445 million.

Where that extra \$100 million has gone is puzzling, and should be explained sooner rather than later. If it could be restored to the grants budget, it might help avoid the phenomenon of middle-income students being penalized in the short term.

GRANTING COUNCILS

Granting Councils

After declines in granting council funding under the Tory government over the past several years, Budget 2016 promises a significant influx of money. To start, the Liberals have promised to maintain the Tory's 2015 Budget framework, which set granting council funding at a combined \$46 million (including indirect costs of \$9 million).

On top of this, however, Budget 2016 allocates an additional \$95 million per year (including \$19 million in indirect costs), starting this year. This represents the single greatest annual funding increase in more than a decade. The additional funding outlay will follow the traditional 2:2:1 formula, and will be divided as follows:

- CIHR: \$30 million
- NSERC: \$30 million
- SSHRC: \$16 million

Combining this new, additional funding with that promised by the Conservative government in 2015, granting council are now set to receive a total of \$141 million this year.

Granting Council	Proposed 2016-17 Spending (Conservative Government, Budget 2015)	Proposed 2016-17 Spending (Liberal Government, Budget 2016)
CIHR	15	45
NSERC	15	45
SSHRC	7	23

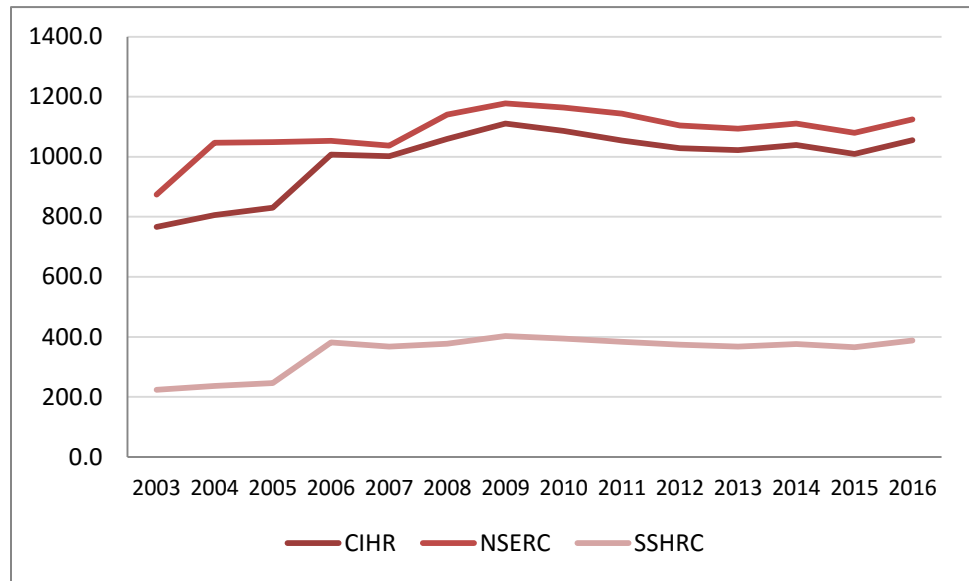
No doubt, this increased funding will be welcomed by researchers across the country. What remains to unfold, however, is something that the budget chose *not* include. In recent years, the Conservative government demonstrated an increased propensity to earmark funds for specific research programs, in the hopes to “fuel economic growth and respond to important challenges and opportunities.”¹ Often, very specific commitments were made around applied research to the benefit of colleges and polytechnics. However, Budget 2016 contains no such mandates. In its place, is an important “announcement,” namely, the Minister of Science will “undertake a comprehensive review of all elements of federal support for fundamental science over the coming year.” With the objective to “strengthen the granting councils and Canada’s research ecosystem,” the review will:

- Assess opportunities to increase the impact of federal support on Canada’s research excellence and the benefits that flow from it;
- Examine the rationale for current targeting of granting councils’ funding and bring greater coherence to the diverse range of federal research and development priorities and funding instruments;
- Assess the support for promising emerging research leaders; and
- Ensure there is sufficient flexibility to respond to emerging research opportunities for Canada, including big science projects and other international collaborations. This element represents a considerable win for the U-15.

As noted, taking a longer view of granting council funding reveals that Budget 2016 represents a significant departure from the trend of declining funds under the Conservative government:

¹ Budget 2015: Strong Leadership, pg. 100.

Granting Council Budgeting Resources, millions of 2016 constant dollars



As portrayed in the above graph, Budget 2016 saw increases across the board: in aggregate funding terms, CIHR's funding represents a 4.4% increase from last year, while NSERC's rise is 4.2%, with SSHRC's total up 6.3% over last year. Although funding hasn't quite returned to those levels seen during the spike in 2009, these aggregate figures are (more-or-less) a return to the 2011 totals.

Two New Canada Excellence Research Chairs

Two new Canada Excellence Research Chairs are established in Budget 2016, with a supporting funding envelope of \$20 million over eight years. These positions will attract and support top researchers in the field of clean technology research, and will be selected in spring 2016.

SCIENCE AND INNOVATION

Science Research

The 2016 Budget includes a series of investments designed to attract and retain “world-class researchers and [develop] promising discoveries into applications that create value for Canadians.” Specifically, it provides funding in six areas:

Mitacs: Budget 2016 provides \$14 million over two years, starting in 2016-17, to the Mitacs Globalink program. The program is designed to attract undergraduate and graduate research talent to Canada from nine partner countries, and have them undertake research projects at Canadian universities over a 12-week period. This funding comes in addition to the \$56.4 million provided to Mitacs in the previous budget for its Accelerate program, which selects graduate students and postdoctoral fellows from over 50 universities to apply specialized expertise to business-related research challenges.

Genome Canada: Budget 2016 proposes to provide a one-time \$237.2 million endowment in the 2016-17 fiscal year to support pan-Canadian activities of Genome Canada out to 2019-20.

Centre for Drug Research and Development: Located at UBC, the Centre’s mandate is to identify and translate promising health research discoveries from universities across Canada into new medicines and therapies. Although no new money will be provided this year, Budget 2016 promises to provide the centre with up to \$32 million over two years, starting in 2017–18.

Stem Cell Network: The Network – an evolution of a former Network Centre of Excellence - enables the translation of stem cell research into clinical applications, commercial products, and public policy. The Budget proposes to provide the Stem Cell Network with up to \$12 million across the 2016-17 and 2017-18 budget years to support its research, training, and outreach activities.

The Perimeter Institute for Theoretical Physics: The Waterloo-based Institute is an independent center devoted to foundational research in theoretical physics. Budget 2016 proposes to provide the Institute with \$50 million of funding, over five years, beginning in 2017–18, in order to strengthen its position as a world-leading research center for theoretical physics. Worthy of note here is that each federal dollar will be matched by two dollars from the Institute’s external partners; as Paul Wells noted on Twitter, this likely means

one dollar from the provincial government and one dollar from Mike Lazaridis.

The Brain Canada Foundation: Budget 2016 indicates an additional funding expenditure of up to \$20 million over three years, starting with \$4 million 2016-17, and an additional \$8 million annual for each of the next two years. This money is designated for the Foundation's Canada Brain Research Fund, which is designed to provide competitively awarded, collaborative, multidisciplinary brain health and disorder research projects. As with the Perimeter Institute, federal funding will be matched by resources raised from the Foundation's non-government partners.

Innovation Research

In the lead-up to the election, much was made by the Liberals about science and innovation. Talk of un-muzzling scientists, and a return to the long-form census abounded. In their pre-election platform, the Liberals promised to set aside an additional \$600 million over three years for an Innovation Agenda, which would "significantly expand support to incubators and accelerators, as well as the emerging national network for business innovation and cluster support." The objective, so-claimed, was to "create successful networks like the German and American partnerships between business government and university/college research."

Budget 2016 proposes to make up to \$800 million available over four years, starting in 2017-18, to support innovation networks and clusters as part of the Government's upcoming Innovation Agenda. What this means and how the money will break down (along with who will manage the fund and provide support) remains anybody's guess. For the time being, the budget indicates nothing beyond the \$150 million promised for 2017-18.

Ultimately, the sections on innovation are hefty in rhetoric. To wit: "The support will catalyze private sector dynamism, generate greater value from public investments in innovation and enable the pursuit of ambitious initiatives that bring a critical mass of stakeholders together and connect their ideas to the marketplace." Nevertheless, Budget 2016 proved rather light in specifics, with Canadians being promised that "Further details about the allocation of this funding will be provided in the coming months."

SKILLS POLICY

Youth Employment Strategy

Budget 2016 expands the funding envelope available to the Youth Employment Strategy (YES), targeting funding to “new green jobs,” increasing the capacity of the Skills Link program (which supports workforce transitions through job skills training, experience, and entrepreneurship), and the Young Canada Works program (which provides wage subsidies for youth in heritage, arts, culture, and official languages).

This funding takes the form of a one-time boost of \$165.4 million. This is in addition to the \$339 million over three years announced in February to support the Summer Jobs Program, one of the main programs under the budget envelope of YES. The budget commits to, but does not specify, future spending in 2017-18 and 2018-19 to further support “vulnerable youth.”

Youth Service Program

\$105 million has been earmarked over the next three years, to support “helping young Canadians gain valuable work and life experience while providing support for communities across Canada.” This exceeds a campaign promise of \$25 million in annual funding for the Youth Service Program (YSP). No details are provided on the organizational structure to be used (a single-organization Katimavik-like mechanism? Distributed funding to many participating organizations?); nor is the exact nature of the activities to be funded specified.

Co-operative Education and Work Integrated Learning

Budget 2016 announces \$73 million over four years for the Post-Secondary Industry Partnership and Co-operative Placement Initiative, a program designed to support partnerships between post-secondary institutions and employers that help place students in co-operative education placements. This initiative will focus on STEM and business fields. This allocation is particularly unclear, with no indication whether this will be allocated to institutions, employers, or to some other stakeholder.

Similar small envelopes were announced last year in this area, with one-time investments of \$65 million in business and industry associations to help align curricula with the needs of employers. It is possible that the money from this envelope will be continued by the Post-Secondary Industry Partnership and Co-operative Placement Initiative, but again details are too scarce to be sure.

Union-Based Apprenticeship Training

A small envelope of \$85.4 million over five years has been announced to strengthen union-based apprenticeship training providers. The first year of this program will cost \$10 million, which may reflect an otherwise-unfulfilled platform promise to develop or expand Pre-Apprenticeship Training programs.

Aboriginal Skills and Training

Budget 2016 was monumental for its focus on Canada's aboriginal peoples. While some of the initiatives focus on education, the large majority are earmarked for primary and secondary education, with very little new support for aboriginals in post-secondary education. A small allocation of \$15 million over two years will launch a pilot project to support training that aligns with community needs, under the umbrella of the Aboriginal Skills and Employment Training Strategy.

"The proposed investments in Budget 2016 are the first phase of a renewed and expanded Aboriginal Skills and Employment Training Strategy. Over the next year, the Government will consult with stakeholders, including Indigenous organizations and employers, in order to work towards a renewed and expanded Aboriginal Skills and Employment Training Strategy."

This is the only new support announced for Aboriginal PSE. While the Liberal platform made a direct commitment to increase funding to the Post-

Secondary Student Support Program, which supports First Nations students attending post-secondary education, by \$50 million per year. No such funding was made available in the budget; in its place is a vague promise regarding future consultations with stakeholders.

CONCLUSION

It's very difficult to call this anything but a very good budget for the higher education sector, albeit more so for universities than for colleges and polytechnics. That said, there is clearly a lot of clean-up work still to be done. If this analysis tells us anything, it's that the new government remains not entirely in command of all its files.

On the student financial assistance front, the government did what it said it would do: axe the education and textbook tax credits, while increasing up-front grants to low- and middle- income students. That's excellent news, even though it creates some winners and some losers (and possibly more losers than winners, until 2017-18 at least). The system will provide money to students faster and more transparently, and that can only be good for accessibility.

On the granting councils, the news is extremely positive. Where the Liberal manifesto promised no new dollars at all, this budget provides the councils with the largest single increase in over a decade. In contrast to the previous government, the Liberals seem content to let the councils themselves decide what to do with the new money. Additionally, the Budget promises that the Minister of Science will conduct a comprehensive review of federal support for fundamental science. This will please many, but the lack of any specific support for applied research is sure to make colleges and polytechnics nervous.

On innovation policy, there are a lot of fine words and a few large numbers as placeholders, but an astonishing lack of detail. From the specifics available, the sentiment of the Liberal policy largely follows from that of the previous government (though the promised funding to support "innovation networks" – whatever that may mean – could represent a different path).

On skills policy, the change in tone between this government and its predecessor is dramatic. Not only is there less money available, but the government also seems to not be terribly fluent with either the language or the issues. Again, colleges and polytechnics may react negatively to this (as

indeed may employers' groups). One announcement in particular allocates \$73 million for "co-operative education," but is so light on details that it's not even clear if institutions or businesses will receive the money.

On infrastructure, there is plenty of money for universities and colleges, totaling nearly \$2 billion over the next three years. However, as with the Budget's innovation section, there is a serious lack of detail here about how the money will actually be administered.

If there is a false note in this budget, it is with respect to Aboriginal students, as the manifesto promise to increase funding to the Post-Secondary Student Support Program for First Nations by \$50 million/year was not fulfilled in this budget.

In sum, the Liberal government has shown generally good instincts concerning PSE. On one hand, funding provisions are mostly generous to the sector. On the other hand, these provisions remain largely superficial in key areas, as the government struggles to get ahold of its own machinery and sketch in the contours of its policy framework. Details, we are told, are forthcoming. Time will tell. In the final analysis, this budget deserves a solid "A" grade for sentiment. On execution, however, the government might need to "revise and resubmit."