The 2014 Federal Budget:

A Higher Education Strategy Associates Commentary

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Introduction

On February 11, 2014, Finance Minister Jim Flaherty rose in the House of Commons to deliver his 10th budget. Politically, the goal of this budget was telegraphed well in advance: to ensure that federal finances stayed on track to produce a surplus in 2015, for which the government could take credit in an election that year. That meant restraint was the order of the day, and new spending was destined to be limited.

As has been the case for many years, post-secondary education in general came out better than pretty much any other areas of federal program activities. Research in particular was a big winner, but education-related labour market measures also shared in the spoils as well. The most out-of-left-field measure was probably the announcement of a “Canada Apprenticeship Loan” which – while intriguing – has the possibility of creating some very odd precedents that could seriously affect the Canada Student Loans Program.

Research

Canada First Research Excellence Fund

The highlight of this budget was the announcement of the Canada First Research Excellence Fund (CFREF). During pre-Budget consultations, several university associations called on the government to create such a fund. Specifically, the U-15 proposed the creation of an “Advantage Canada Research Excellence” (ACRE) Fund, for which the Government would provide an immediate initial investment of $100 million, with annual expenditure gradually increasing to $400 million per year, over the next four years.

In contrast, CFREF will receive $1.5 billion in funding over the next ten years to be administered by SSHRC in order to “help Canadian post-secondary institutions excel globally in research areas that create long-term economic advantages for Canada.” Questions abound, however, on how exactly these funds will be distributed and on what basis. Presumably, the awards will be project- and proposal-based, though one cannot be sure until further details are released. One thing that is certain is that funds will be distributed directly to institutions, bearing some resemblance to the Canada Foundation for Innovation, rather than individuals. This means that CFREF will not take effect until the next fiscal

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year, after which it will provide institutions with $50 million in 2015-16, $100 million in 2016-17, $150 million in 2017-18, and will peak at $200 million in 2018-19, which will remain the annual spending total thereafter.

University associations responded enthusiastically to the creation of a sustained research fund, despite CFREF falling well short of the figures requested in the ACRE fund proposal and despite the fact that the government seems to have ideas of its own about how the money should be spent. A subtle, though important, semantic difference can be found in the target of the funding; whereas the U-15 ACRE fund proposal sought to "compete for the most talented faculty and students", such language is missing from the CFREF proposal, which promises only to compete "for talent and breakthrough discoveries." One suspects that the Government wishes to discourage institutions from using the money to attract foreign students – something which has been loudly opposed by the Ontario wing of the Conservative Party.

Granting Councils

The three granting councils will receive a total of $37 million in new funding annually, from 2014-15 onwards. This represents the largest net increase in granting council funding since 2009. Unlike in the past two years, this increase is not offset by planned cuts to granting council funding (see Table 1).

NSERC will receive an additional $15 million and SSHRC an additional $7 million per year; for the first time since 2011 these increases will not be directed towards specific research targets.

CIHR also receives an extra $15 million per annum, but in this case, funding is earmarked for specific purposes. In particular, funding will go towards the creation of the Canadian Consortium on Neurodegeneration in Aging, the expansion of the Strategy for Patient-Oriented Research, and other health research-related priorities.

Budget 2014 also calls for $9 million per year of additional funding for the Indirect Costs program; this program did not receive an increase in funding with last year's budget announcement.

These funding announcements represent a 1.5% increase in CIHR's budget, a 1.4% increase in NSERC's funding, a 2% increase in SSHRC's

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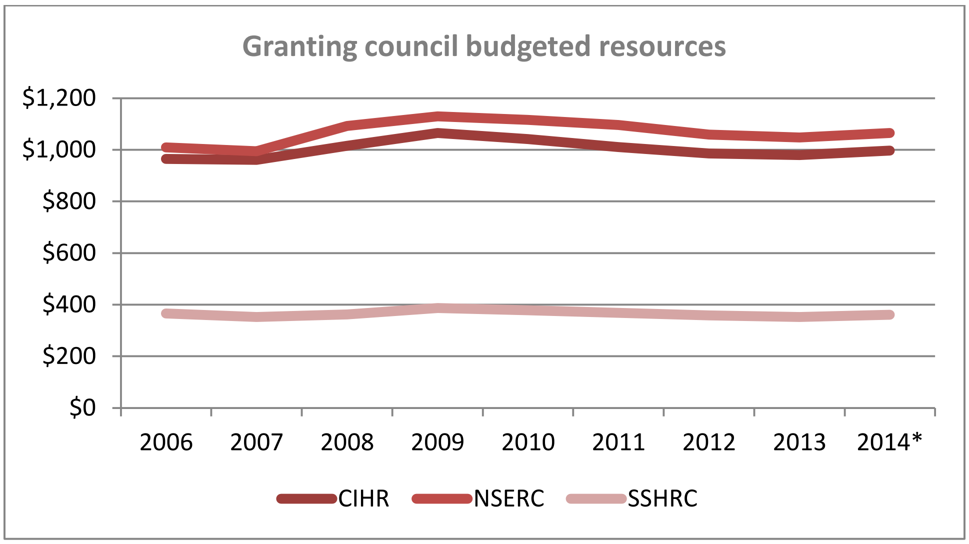
budget (not accounting for the Indirect Costs program), and a 2.7% increase in funds available for the Indirect Costs program .

	2013-2014			2014-2015		
	Cuts	New funds	Net	Cuts	New funds	Net
NSERC	15*Z	15	0	0	15	15
SSHRC	7	7	0	0	7	7
CIHR	15	15	0	0	15	15

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

In real dollars, however, the picture is less optimistic. From the Harper government peaks in 2009, CIHR's budget has fallen 6.4%, NSERC's has dropped by 5.7%, and SSHRC's funding has fallen by 6.8% (see figure below).



Source: Department Reports on Plans and Priorities, Bank of Canada Inflation Calculator

"Industry-Relevant" Research and Training

For the third straight year, the budget contains a major commitment to Mitacs, a non-profit which offers funding for internships and fellowships at universities in Canada and abroad.

In 2012, the allocation was for Mitacs' Accelerate program, which provides short-term internships to graduate students and postdoctoral fellows, with the aim of fostering university-business linkages. In 2013, $13m was allocated to Mitacs' for its Globalink project, which supports Canadian graduate students on overseas research internships, as well as foreign graduate students studying in Canada. In this year's budget, $8 million over two years has been provided for Mitacs' Elevate Initiative, aimed at providing postdoctoral fellows with industry-relevant research experience and training though internship positions which can last up to two years.

In addition to new funding, the Budget announced a policy change which permits Mitacs to make its money available to eligible not-for-profit organizations which have "an economic orientation" as well as to for-profit. This may create a shift in Mitacs' profile as it likely means many more partnerships with the social sciences will become possible.

Additionally, the budget winds down NSERC's Industrial R&D fellowship program and transfers its responsibilities to Mitacs, which now becomes the sole delivery agent for federal support for postdoctoral industrial Research & Development fellowships. This decision is in line with Government's overall push for program consolidation; intriguingly though, this centralization has taken place in an agency outside of the Government.

Varia

Substantial funding was announced for the TRIUMF physics laboratory, a facility in British Colombia that houses the world's largest cyclotron. 126 million over 5 years is proposed in the 2014 budget. Combined with the 96 million allocated from existing resources of the NRC totals 222 million in Federal support for core operations over this period.

Waterloo's Institute for Quantum Computing will receive $15 million over three years to support commercialization of their research. This institute conducts leading research on quantum information and its applications in a wide variety of related disciplines.

Three million over three years has been announced to support the creation of the Open Data Institute by the Canadian Digital Media Network (a federal Centre of Excellence in Commercialization and Research). This new institute will promote the continued release and aggregation of high-value datasets, and support the development of new data-driven applications ("apps").

Last but not least, the 2014 Budget provides $10 million over two years to support targeted social innovation research projects at colleges and polytechnics. Beginning in 2014-15, this pilot initiative seeks to connect the "talent, faculties, and capabilities" of Canada's Colleges and Polytechnic institutes with the research needs of local and community organizations. The funds will be administered by the Social Sciences and Humanities Research Council.

Jobs, Internships and Youth Employment

Canada Jobs Grant

The 2013 Budget introduced to Canadians the notion of a Canada Jobs Grant (CJG) without warning and without prior consultation either with the provinces or with employers. The Grant was intended to provide employers with up to $5,000 towards the training of Canadians for an existing or better job, provided that these funds were matched by both the employer and the province.

Money for the CJG was to be reassigned in part from existing provincial transfers via the LMAs and Labour Market Development Agreements, due to expire in 2014 – $300m of this to be taken from the $500m LMA funding, targeting vulnerable and low-skilled Canadians, with a further, unspecified amount to be taken from provincial LMDA transfers.

As HESA predicted last year, the CJG has indeed run into substantial provincial resistance over the past twelve months. (The provinces argue, reasonably enough, that the CJG puts at risk existing, successful provincial skills programs, including those which target vulnerable individuals and communities, and constitutes an intrusion by the federal government into an area of provincial competence.)

Provincial resistance has led the Federal government to sugar the pill, with Budget 2014 proposing that the feds will cover the provincial portion, up to a total of $10,000. This “concession'” may be more apparent than real: the 2014 Budget reaffirms last year’s position, namely that the Government will also renegotiate the $1.95 billion-per-year Labour Market Development Agreements to reorient training toward labour market demand’ – suggesting that provinces’ contributions may in fact be deducted from their share of the LMDA after all.

Employer reaction has been more mixed; while the focus on aligning training with the needs of employers has been welcomed, there are questions as to the role of smaller employers in the scheme and – as HESA noted in last year’s Budget Commentary – concern as to how meaningfully the short-term skill training envisaged in the CGP can address the skills needs of the economy. The burden for small businesses has also been lightened in this Budget, with smaller employers potentially allowed to count wages as part of their employer contribution.

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The federal government has signaled its intention to proceed with the implementation of the Canada Jobs Grant as of 1 April, with or without the participation of provinces. This seems ambitious.

Internships and Youth Employment

Budget 2014 allocates $40 million towards supporting 3,000 internships for post-secondary graduates in "high demand fields." This sum will be split 75/25 between the NRC Industrial Research Assistance Program (IRAP), and the Youth Employment Strategy (YES) run by Employment and Social Development Canada. The former will receive "up to" 30 million in funding to support youth internships in small and medium-sized enterprises (SMEs) undertaking technical research and development projects, while the remaining 10 million will be delivered under YES. Additionally, $15 million has been reallocated within YES to support internships for recent post-secondary graduates in SMEs.

While not immediately obvious thanks to the Tory's abandonment of modern norms of public budgeting, this announcement is a reallocation of existing funding that concentrates internship support in IRAP. Much of these funds were announced in 2013, when the budget promised $70 million for 3 years to support internships via YES's Career Focus program. The 2013 budget redistributes a proportion of funding through IRAP.

Shifting the balance of funding towards IRAP suggests that a larger proportion of internships will be targeted to SMEs, and to specific industries or professions in high demand fields. The term "high demand fields", used frequently in this budget, is only vaguely defined, leaving some uncertainty as to whom this funding will benefit.

STUDENT ASSISTANCE

Canada Apprenticeship Loan

Perhaps the most surprising measure in the budget is the announcement of a Canada Apprentice Loan. Surprising because literally no one was asking for this measure, and it's not entirely clear what problem this loan is designed to solve.

The budget says that Apprentices in Red Seal trades will be able to apply for up to $4,000 in loans per period of technical training (that is per 6-12 week block of training when apprentices are not in the workforce). These loans are described in the budget as "interest-free", but presumably this is meant in the sense that existing Canada Student Loans are interest free while students are in school. The budget estimates that $100 million will be borrowed each year under this program, at a cost to government of $25 million/year.

There is more than a bit of slapdashery about this announcement. For one thing, it seems to completely ignore the fact that the federal government already supports apprentices in training period by allowing them to claim EI. Is this program meant to supplement this or replace it? What kind of need assessment will be done on this loan? Clearly, it won't be similar to Canada Student Loans because apprentices earn far too much to qualify for a loan. A typical apprentice in a construction trade on standard wages would likely already receive about $400/week in EI while in their technical period. That's definitely enough to cover typical median costs for a six week period, which according to a 2006 study that we at HESA (in our previous guise as EPI Canada) conducted for CAF[1] are about $2,450. That would imply a need of about $0 – so why a $4,000 loan? Substantial fiddling with need assessment (or perhaps an elimination of need assessment altogether) would be required to push loan numbers up to $4,000 – and you can be sure that if such fiddling/elimination occurs, student groups will try to claim the same for CSLP. Which could get interesting.

The origin of the $100 million is similarly unclear; it seems to imply that 25,000 apprentices per year will borrow, but this is likely a number plucked out of the air (presumably the number of people borrowing will depend mightily on what happens to EI and what the need assessment looks like). And the cost to government numbers are clearly wrong. The

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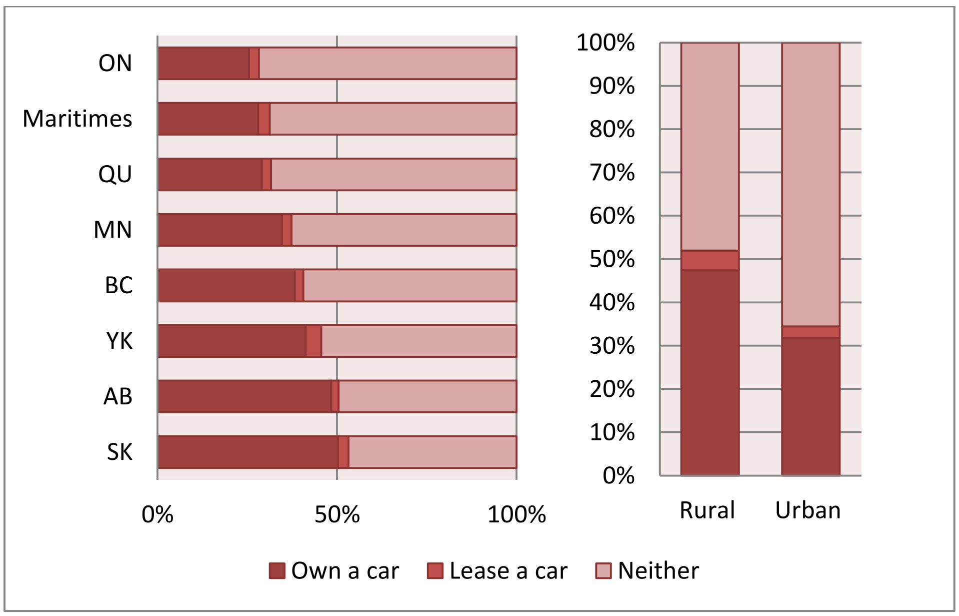
government seems to think that lending $100 million will only cost $12-13 million – which is less than half of what it costs in CSLP. Why it thinks this program will be cheaper than CSL in this regard is unclear.

In short, it seems that this part of the budget is something of a work-in-progress. Presumably we will hear much more about it over the coming months.

[1] see *Estimating the Return on Investing on Apprenticeships* available at http://caf-fca.org/index.php?page=the-business-case-for-apprenticeship-for-employers

Vehicles of Canada Student Loan Borrowers

Vehicles will no longer be considered in the Canada Student Loans needs assessment process. This change will benefit students who own or lease vehicles, making them eligible for higher loan amounts. The projected cost of this program is $14.8 million over the first two years and $7.8 million per year ongoing. The 19,000 student loan borrowers who currently own vehicles are disproportionately distributed in rural areas and western provinces.



Income Expenditure Survey Conducted by Ekos for the Millenium Scholarship Foundation and CSLP (2003-2004)

Conclusion

The impact of today's budget is somewhat difficult to assess. Certainly, it is a triumph for the post-secondary sector to have yet again been on the receiving end of so much of the government's largesse. Surely no other field of program spending has done as well during the era of Tory restraint as PSE, and for that the whole sector surely needs to thank the various national representative groups in Ottawa.

But on the other hand, a fair bit of the money which people are celebrating is ephemeral. The Canada Apprentice Loan is a long way from being the finished article. The $40 million for internships is almost entirely re-purposed rather than new. And though research institutions seem eager to pop champagne corks at the prospect of a $1.5 billion CFREF, the reality is that not one dollar of this is secure, as there will be an election before any of these funds become concrete. The fact that funds will go to institutions rather than researchers raises the possibility of a political impasse as it's unlikely Quebec will take much of a shine to that idea. And, needless to say, 10-year budget projections are about as reliable as an astrology reading.

At least the sector has done well to keep the government sweet on the idea of investing in higher education, skills and training this. But execution? It may take some time before we can evaluate that. In the meantime though, we can all practice learning the sector's newest and possibly least-wieldly acronym: "CFREF".

Good luck, all.

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