CANADIAN EDUCATION PROJECT

The 2011 Federal Budget:

A Canadian Education Project Commentary

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

HIGHER EDUCATION STRATEGY ASSOCIATES

207-20 Maud Street
Toronto, ON M5V2M5
www.canedproject.ca
P: 416.848.0215
F: 416.849.0500

Introduction

On March 22, 2011, in the shadow of a non-confidence vote that at the time of writing seems almost certain to precipitate a fourth federal election in seven years, Finance Minister Jim Flaherty rose in the House of Commons to deliver his sixth budget.

Though heralded in advance as a "stand pat" budget that shunned new spending in favour of putting the country back on track towards fiscal balance, it in fact was packed with small, boutique programs and highly targeted interventions. Nowhere was this more the case than in post-secondary education.

With all three opposition leaders having announced their intentions to defeat the budget, it seems extremely unlikely to pass in its present form (though in the event of a Conservative victory in an election, much of it may be re-introduced later this spring). Nevertheless, we present herewith our analysis of Budget 2011.

Transfers to Provinces and Institutions

For many in higher education, the most important expected announcement concerned the Canada Social Transfer (CST), of which 25% is at least notionally allocated for the purposes of post-secondary education. In the 2007 budget, the Conservative government set a long-term path for the Canada Social Transfer, promising provinces that the transfer will increase by a steady 3% per year until 2013-14. As that year has inched closer, there has been increasing concern about what will happen after that time – particularly when the government had signaled that it will be engaging in a period of fiscal restraint.

However, those wanting greater clarity about the CST were disappointed: though the government carried through on its promise to raise the CST from $11.2 to $11.5 Billion this year, it made no commitment whatsoever about the fate of the transfer after 2013-14.

Over the last couple of years, institutions have benefitted from one other major piece of institutionally-related government spending; namely, the Knowledge Infrastructure Program (KIP). This was a $2 billion, two-year economic stimulus package directed at infrastructure development at universities and colleges. Conceived at the height of the financial panic in late 2008/early 2009, and directed at least as much at the construction industry as at universities and colleges, this funding was actively used by institutions nation-wide to assist with infrastructure development, constituting direct funding of 536 projects over two years. As expected, this funding was not renewed or replaced in the 2011

Budget – a discontinuation that represents a major decrease in the total funding available to Canadian universities and colleges.

Transfers to Individuals

Assistance for Health Graduates

One of the most heralded items in the 2011 budget is a measure to provide student debt remission to graduates of medicine or nursing programs who work in rural areas. The program promises that, starting in 2012–13, new physicians working in rural and remote or First Nations/Inuit communities will be eligible for federal Canada Student Loan forgiveness of up to $8,000 per year to a maximum of $40,000. Nurse practitioners and nurses will be eligible for federal Canada Student Loan forgiveness of up to $4,000 per year to a maximum of $20,000. The program is expected to cost $9 million in 2012-13, the first year.

Because the program has only been budgeted for its first year and details about eligibility are scarce, its eventual size is unclear. Assuming the beneficiaries each receive the maximum assistance, an annual allocation of $9 million could provide assistance to roughly 20% of all medicine and nursing graduates in any given year, or about 150 doctors and 1,900 nursing graduates. Providing this for four years would imply an eventual program size of $45 million, though since at present two-thirds of all doctors repay their student loans within two years of graduating, not all beneficiaries may be expected to take up the award for the full five years.

Two important questions remain to be answered about this new program. The first has to do with adequacy of program design. Clearly, this program is about helping rural communities, not about improving student assistance; the announcement has all the hallmarks of having been dumped on a line department by the Prime Minister's office without consultation. But are the amounts of aid on offer sufficient to actually convince many new graduates to change their career plans and head for rural or remote areas?

According to Statistics Canada's National Graduates Survey, a majority of Bachelor's degree graduates in medicine (77%) reported owing an average of $26,800 in federal and provincial loans in 2005, as did 45% of nursing graduates at the Bachelor's level and 49% of those at the college level. Yet nearly two-thirds of the doctors had repaid all of their student loans within two years of graduating, suggesting that most new doctors are not under the kind of financial pressure that an offer of $8,000 per year might affect their career decisions. Nursing graduates, on the other hand, earn lower salaries (and are less likely to find full-time work straight out of school), and thus seem likelier to embrace a

207-20 Maud Street, Toronto, ON M5V 2M5
phone: 416.848.0215, fax: 416.849.0500
info@canedproject.ca

financial incentive to work in rural areas, particularly if they themselves are from small towns.

A similar program that has operating in B.C. over the past decade has not been rigorously evaluated, but all signs suggest the program is more effective among those who tend to earn lower salaries (i.e., nurses rather than doctors). Research conducted in the United States on the effects of workforce-contingent loan forgiveness programs suggests that these kinds of programs are likely to have extremely limited effects. The primary concern is that they largely end up acting as windfall gains for individuals who would have chosen to practice in these kinds of communities regardless of the incentive. For instance, the results of a 2008 Canadian Medical Association study suggest that financial incentives play a relatively small role in attracting doctors to rural areas. Doctors are more likely to be drawn to rural Canada by the opportunity to practice in a manner that takes advantage of their full skill-set.

A second question has to do with how the program will run. Though the program could almost have been inspired by the 2003 comedy, *La Grande séduction* (English title: *Seducing Doctor Lewis)*, in which a small Quebec town desperately sought to recruit a physician in order to entice a small company to build a factory, it is not clear how this measure will work in Quebec. If, as seems likely, this program is to be run through the Canada Student Loans Program (which does not operate in the province), compensation for Quebec can only be paid if the province has a similar student aid program, which at present it clearly does not. The Federation Etudiante Universitaire du Quebec claims to have had assurances from officials at the Department of Finance that a work-around would be found, but at the time of writing it is not clear what such a work-around might entail.

Student Financial Aid Measures

Budget 2011 contains a number of tweaks to the existing federal student financial aid architecture, though far from the kind of large-scale changes seen in Budget 2008, which included the replacement of the Canada Millennium Scholarship Foundation with the Canada Student Grants Program. The key proposed changes are:

I. Allowing full-time students to earn more employment income while in school without having their student loan eligibility clawed back, by doubling the weekly exemption from $50 to $100, a measure costing an estimated $30 million per year.
II. Three improvements to part-time student loans, several of which have been on Canada Student Loans Program's wish list for over a decade. These include: expanding eligibility for the loans by increasing the family income cut-off for part-time student borrowers; increasing the income threshold for part-time students' eligibility for Canada Student Grants to

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match that of full-time students; and eliminating interest on part-time loans while students are in school (as is the case for full-time students).The total cost of these measures is estimated at between $5 and $6 million per year.

These measures will be implemented in 2011-12, and in several cases will not reach maturity until the following year.

Encouraging Science, Technology, Engineering and Mathematics (STEM) enrolments

Buried in the budget documents is a curious pledge that Human Resources and Skills Development Canada will "reallocate" $60 million of its present budget "to promote enrolment in key disciplines related to the digital economy such as science, technology, engineering and mathematics." No details are given, either about what policy tools might be used to accomplish this, or from where the existing $60 million is to be found.

In the absence of actual details, a little speculation may be in order. The obvious example to follow would be the Supplemental Pell and SMART Grants programs for math and science students that were introduced by President Bush in his FY2006 budget, which were piggybacked onto the income-based Pell program. Essentially, low-income students who choose to take "rigorous" science and math courses in high school and who maintain a good grade point average in a college-level science program get extra aid money. If this was the model employed, the new program would be run by the Canada Student Loans Program and money needed to run the program may come out of their budget as well. This is, as we note above, necessarily speculative – but it is also plausible.

Research

What follows is a long list of investments and allocations related to research, much of it occurring only partially within the confines of higher education. Though there is no single thread running through all the research decisions announced in the budget, there is an emphasis on what is being called the "digital economy strategy" in many of these announcements.

The digital economy strategy aims to make Canada a leader in the creation, adoption and use of digital technologies and content by providing funding for collaborative projects between small- and medium-sized businesses and colleges to accelerate the adoption of key information and communications technologies, and to increase enrolment in key disciplines related to the digital economy.

As the following discussion reveals, much of what has been announced in the guise of this strategy involves public-private collaboration, bridging university/college/polytechnic researchers with small- and medium-sized enterprise. While government is represented here through the granting councils, it also plays a role through federally-funded arm's-length organizations. What is key is the focus on information and communications technology, and the emphasis on extending the research process beyond the halls of academe.

Granting Councils

Budget 2011 allocates $37 million to the granting councils, including $15 million each to CIHR and NSERC and $7 million to SSHRC. This 2:2:1 split restores the division of funds that was common prior to 2010, when the split was 5:4:1 in favour of CIHR.

The three-year strategic review, introduced in Budget 2009, will be fully implemented in 2011-2012. As a result of the review, there were planned cuts of $87.2 million and the allotment of $87.5 million over three years. None of the new granting council investments were sufficient to cover inflation over the past year. NSERC's 2010-2011 budget was $1.08 billion - the increase of $15 million represents an increase of 1.4%. SSHRC's increase is 2.1%, and CIHR's is approximately 1.5%. Total inflation over the past year was 2.2%.

While there is little of the explicit earmarking of funds to specific research topics as has occurred in previous budgets, there are a variety of "such as" clauses included. The increase to CIHR, for example, is to be used for "advanced health-related research, such as the Strategy on Patient-Oriented Research." It is unclear how this kind of language will translate into funding orientation.

The Indirect Costs program sees an addition of $10 million, covering an overhead of 27% of the new granting council investments. While this represents a higher percentage relative to new council investments than in previous years, the cuts to the council budgets as a result of the strategic review will see a net decrease in the budget of the Indirect Costs program to maintain a constant relative ratio of funding for direct and indirect costs of research.

New Canada Excellence Research Chairs

The new budget promises 53.5 million over five years to support the creation of 10 new Canada Excellence Research Chairs. This represents a substantial increase over the current 20 Excellence Research Chairs, and the funding amount per-chair is comparable. Of interest is the qualification that "some of these new research chairs will be active in fields relevant to the Digital Economy Strategy," which heavily favours STEM research areas at the expense of social sciences and fine arts. The cost of the 10 new chairs will exceed the budget's announced allocation to the three granting councils.

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Fostering Commercialization and Business Innovation

Budget 2011 pays considerable attention to the role of the applied sciences in promoting commercialization of research and business innovation. The budget takes three approaches to advancing research in this area: colleges and universities, Sustainable Development Technology Canada (SDTC), and the National Optics Institute (INO).

First, funding is being provided to two programs operating at the college and university level. The first, already existing, is the Idea to Innovation program, which encourages projects that have commercial potential at colleges and universities. The second, which is new, is the Industrial Research Chairs program, which will operate at the college and polytechnic level, with the aim of encouraging more "applied research in fields where there is an important industrial need." Budget 2011 allocates $3 million in 2011-12 and $5 million per year permanently thereafter, for the creation of 30 new Industrial Research Chairs at colleges ($100,000 per chair in 2011-12 and $166,666 starting in 2012-13).

The budget provides $40 million over two years to Sustainable Development Technology Canada, an arm's-length organization established by the government to develop and establish clean technologies on a not-for-profit basis. The announced $20 million allocation is down from previous amounts, including $97.5 million in 2009. Eligible recipients include universities, colleges and private sector commercial corporations.

The budget further requires $45 million over 5 years to be shifted from the Canada Economic Development for Quebec Region budget and moved into the National Optics Institute (INO). The INO is a Montreal-based private not-for-profit organization that develops commercialized applications and offers support for businesses in the areas of optics and photonics. INO has been recognized as a Center of Excellence and Innovation by the government.

Budget 2011 also announced a new $80 million pilot initiative that will support collaborative projects between colleges and small- and medium-sized business "to accelerate their adoption of information and communications technologies." This program will fall under the purview of the Industrial Research Assistance Program (IRAP), an NRC project that provides services to small and medium enterprises to help them develop and commercialize new technologies. The budget does not specify what the eligibility requirements will be, how this pilot project will affect college research programs, or what the role of IRAP will be.

Climate and Atmospheric Research

Budget 2011 allocates $35 million over five years ($7 million per year) to NSERC to support climate and atmospheric research. While the other targeted one-off research initiatives announced in the budget choose specific institutes or

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programs to support, it appears that the manner in which these funds are disbursed will be up to scientists at NSERC – provided that they stick to the government-prescribed area of study.

The Perimeter Institute

The Perimeter Institute for Theoretical Physics is slated to receive $50 million over the next five years, an amount that is to be matched by the institute's other partners. The Waterloo-based public-private partnership has received $92.4 million in federal funding and $86.8 million in provincial funding since its inception in 1999. In 2007, the federal government announced a similar $50 million envelope of funding to be doled out over five years. While today's announcement represents new money to the Institute, it is in keeping with the last federal allocation, bringing total federal investment to $142.4 million. The institute is currently in the midst of a major expansion that will double its capacity; the new federal funds will no doubt be a welcome aid in attracting top international researchers to fill their new space. This funding can also be seen as part of an internationalization process, as much of the money will almost certainly serve to attract new researchers from abroad as the Institute continues its attempts to become a major international centre for the study of theoretical physics.

Brain Research

Budget 2011 proposes to earmark up to $100 million to help establish a Canada Brain Research Fund in order to further advances and research in neuroscience. The fund is being established to support the efforts of Brain Canada – a non-profit organization engaged in the raising and distributing of funds to researchers. Federal funding for the Canada Brain Research Fund is to be matched by resources raised by Brain Canada's other partners. The money is being released in a $10 million installment for 2011-2012 and $10 million in 2012-2013, for a total of $20 million over two fiscal years. There is no mention as yet of the remaining putative $80 million.

Genome Canada

Following a high of $140 million in federal funding in 2008, Genome Canada was allocated $75 million in new funding in 2010 and only $65 million in the 2011 budget. While this funding is listed as "additional" in the budget, Genome Canada is external from government and no base funding exists: meaning that the total Federal funding for Genome Canada will fall by $10 million in 2011. Genome Canada is a non-profit organization with a mandate to pursue large-scale genomics and proteomics research projects, and other related research and development. It is a major funding source for research centers such as The Center for Applied Genomics at the University of Toronto.

The Canada-India Research Centre of Excellence

In order to strengthen Canada's ties to India and as part of the federal government's wider India engagement strategy, Budget 2011 allocates $12 million over five years to the Canada-India Research Centre of Excellence. While the Centre does not yet exist, the budget refers to a future institutional competition for its establishment.

The Centre's mandate will be to create partnerships that bring together key individuals and organizations from Canada and India, accelerating the exchange of research results, and increasing Canada's international visibility and reputation as a research leader.

Tax Changes

There are two changes in the budget that pertain to education tax credits. Previously, examination fees were not eligible for the tuition tax credit. The proposed budget will extend the tuition tax credit to cover fees over $100 that are paid to take examinations to obtain a federally or provincially recognized professional status, license or certification in order to practice a profession or trade in Canada. This would apply to amounts paid after 2010, costing $1 million in 2010-11, and $5 million annually thereafter. This is designed in-part to make it easier for foreign-trained individuals to have their professional credentials recognized.

The other tax credit change addresses eligibility for the tuition tax credit, the education tax credit and the textbook tax credit for full-time Canadian students studying abroad. Eligibility will be extended to those in courses of at least three consecutive weeks, rather than the 13-week requirement currently in place. This applies to eligible amounts paid after 2010 and will cost $3 million in 2010-11, and $10 million thereafter. It’s unclear who will benefit from this as 80% of Canadian students who study abroad do so in the United States, and are unlikely to be in short programs. The most likely beneficiaries will be students in professional programs, especially business programs such as MBAs.

Another tax-related measure deals with RESPs. Subscribers of separate individual plans will be given the same flexibility to allocate assets of the individual plan among siblings without penalty as subscribers of family plans currently can. Since parents already had this flexibility in existing family plan regulations, likely the main beneficiaries of this change are relatives such as uncles and aunts, who are not eligible for family plans due to income tax regulations. However, even without this change, assets from individual plans could be transferred among siblings, provided they were under the age of 21 at the time of the transfer. With the change, transfers are possible at any age,

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provided the plan was opened before the child turned 21. While not a substantial expenditure, this type of change will benefit citizens who participate in the RESP program, and amounts to a meaningful program improvement without requiring a major investment.

Miscellaneous

Branding of Canadian Education Abroad:

The 2011 budget provides $10 million over two years to develop and implement an international education strategy to market Canada as country of choice to study and conduct research among the emerging economies, especially India. An advisory panel reporting to the Ministers of Finance and International Trade will be established to make recommendations on the strategy and to set out the contributions of all partners. Money will be allocated to promote and advertise initiatives; to strengthen international representation in key markets; and to develop and disseminate market intelligence for institutions.

Reductions to Youth Employment Measures

Temporary funding from last year was not continued for two programs under the Youth Employment Strategy. These include a one-time $30 million increase in funding for Skills Link (a support service for at-risk youth), and a $30 million temporary increase in funding for Career Focus, a program that funds career-related work experience and helps graduates find their first job. That being said, Budget 2011 includes a $20 million contribution to the Canadian Youth Business Foundation to support young Canadian entrepreneurs. This funding is distributed over two years, keeping funding at a constant level with the $10 million allocated in 2010.

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Conclusion

While most observers did not expect Budget 2011 to include substantial sums for higher education, the Conservative government may have caught the post-secondary sector a little off guard. The budget includes a number of small and medium-sized spending announcements that will impact Canadian post-secondary education in meaningful ways (that is, if the budget is ever enacted). In areas like student financial assistance and tax expenditures, the budget offers small steps designed to expand the reach of programs like the Canada Student Loans Program, which will be more accessible to students who are employed and those who study part-time, and the Registered Education Savings Program, which will now more easily accommodate financial support for education from non-immediate family members.

On the research front, the budget includes measures to fund the three granting councils, but those allocations are overshadowed by efforts to expand the scope of research activity in Canada. The expansion of funding for projects and programs like the Perimeter Institute and the Canada Excellence Research Chairs follow the current government's apparent preference for what we might call "big science" – new, large-scale, targeted investments in science activity in subject areas that the Harper government considers to be a priority. Furthermore, Budget 2011 includes considerable investment in relatively new research vehicles, with funds earmarked for colleges and polytechnics, arm's-length organizations, and public-private partnerships.

What was excluded from the budget is probably the centerpiece of any discussion of higher education funding in Canada: a plan for the Canada Social Transfer, which provides a huge chunk of provincial funding for post-secondary education in Canada, and whose future is uncertain beyond 2013-14. The lack of clarity on the future size of the CST short-circuits any meaningful discussion of medium- and long-term higher education financing in Canada. In the meantime, the budget kicks the can down the road another year, compensating by expanding the already substantial suite of boutique post-secondary programs on the books. Only time will tell what will remain of Budget 2011 once a nearly certain spring election occurs.

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