The 2017 Federal Budget:

An analysis from Higher Education Strategy Associates

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INTRODUCTION

On 22 March 2017, Finance Minister Bill Morneau rose in the House of Commons to deliver the Liberal Government's second budget. It had been clear for weeks that this budget would be devoid of big ticket items; the combination of a high deficit from the '16 budget and relatively anemic economic performance since meant that there would be no windfall of goodies as there was last year.

Yet at the same time the government had dropped strong hints in the week prior to the budget that it was deeply worried about the middle class and the effects of automation. As a result, the budget was trailed as a "Skills and Innovation Budget", despite the fact that skills had not really been on anyone's policy radar more than 12 weeks prior, and that the government's innovation policies were widely derided as superficial.

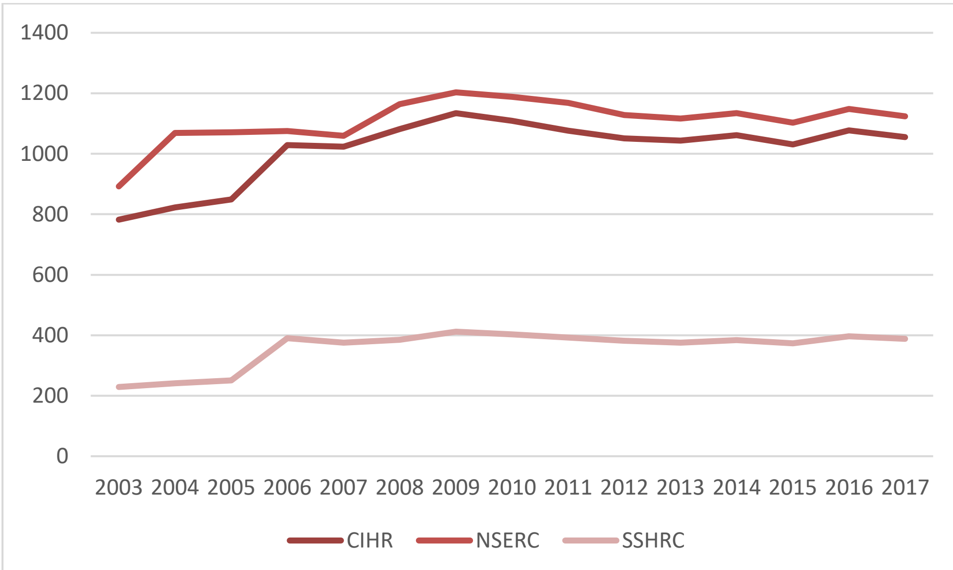
The pages that follow detail the budget's commitments in post-secondary education and related fields.

Science

Granting Councils

For what is believed to be the first time in over two decades, Canada's three research granting councils (CIHR, SSHRC, and NSERC) are entirely absent from Budget 2017. No mention of any of the tri-councils, (or of their funding envelopes) was included. Nada. Bupkis. Zilch. While funding for the councils has been relatively stable over the past years, they have nevertheless always been discussed in Federal budgets. Late last night, Toronto Star reporter Paul Wells recounted an exchange with a senior departmental official signaling that the reason for the omission was that the Government was "happy with councils". It is unlikely researchers will feel the same about the omission.

Tri-council Funding Envelopes



*Corrected for inflation

The budget also renews funding for the *Stem Cell Network* (which works to translate stem cell research into clinical applications) in the amount of $6 million in 2017, and the Institute for Quantum Computing (which helps pilot new quantum computing technologies) in the amount of $10 million in 2017. Previous commitments to fund various other innovation-centered projects from the 2016 budget, including the *Brain Canada Foundation, Perimeter Institute for Theoretical Physics, Center for Drug Research and Development,* and

Genome Canada are not given specific funding figures (and presumably will continue with their planned budget allocations).

The *Community and College Social Innovation Fund*, a SSHRC-managed program that provides grants of up to $200,000 to colleges and polytechnic institutions for work that fosters social innovation and develops social innovation research has also received renewed supported in this budget. The new funding envelope is $5 million per year over the next two years.

One of the few sections in Budget 2017 that specifically focusses on universities is a measure entitled “Attracting Talent to Strengthen University Research.” This initiative appears to consist solely of the creation of “the Canada 150 Research Chairs”, funded by an investment of $117.6 million over eight years. This is not new money; funding is drawn from the existing Canada Excellence Research Chairs (CREC) program. It is not completely clear if this is simply a rebranding of CREC or a program redesign; if we had to guess, we’d say the former. (One wag on Twitter suggested this was in fact a misprint, and it should have read “Canada 1:50” Research Chairs, in honour of the program’s gender distribution).

INNOVATION

Superclusters

The biggest-ticket item in the innovation file are what are called “business-led innovation superclusters”. The superclusters will target industries and businesses with the “greatest potential to support economic growth” in Canada (a framing that neatly underlines this government’s continuing confusion between “innovation” as a synonym for high growth industries and “innovation” as a process of continual improvement in products and processes).

The funding package for this initiative is large, totaling $950 million over five years. $800 million of this is simply a reallocation of Budget 2016’s provision for innovation networks and clusters; the remaining funding will come from a reallocation of $150 million from the public transit and green infrastructure allocations provisioned in the interim.

Though the details are vague, what seems to be happening is that the government has already designated eight priority areas: advanced manufacturing, agri-food, clean technology, digital technology, health/bio-sciences and clean resources, as well as infrastructure and transportation.

For each of these areas, the government intends to hold a competition for business-led groups (which will, nevertheless, presumably include universities and colleges). Details on the competitions are essentially non-existent, but bids seem likely to be evaluated on some combination of 1) risk sharing in technology development, 2) connections between businesses, 3) growing Canadian companies through "globally integrated supply chains", 4) high-value, well-paying jobs, and 5) improving the "quality of life of Canadians".

Artificial Intelligence Strategy

A large envelope of funding ($125 million) has been allocated for the almost-ended fiscal year (2016-17) to launch a *Pan Canadian Artificial Intelligence Strategy.* The stated mandate of this program retains some ambiguity, pointing to "expanding the pipeline of Canadian talent for artificial intelligence" and "position[ing] Canada as a world-leading destination for companies seeking to invest in artificial intelligence…"

While post-secondary institutions are not specifically mentioned, the fact that the Canadian Institute for Advanced Research is administering the funding, and that the geographic areas mentioned in the budget correspond to the locations of academic centers focusing on AI (Montreal, Toronto-Waterloo, and Edmonton), suggest that university based research centers will be the primary recipients of this funding package. Not surprisingly, the Université de Montréal's leading researcher on AI, Yoshua Bengio, is profiled alongside the University of Toronto's Geoffrey Hinton (both previous recipients of CIFAR funding). In practice, this may represent one of the larger funding packages that will become available to post-secondary institutions as a result of this budget – albeit accessible only to the few with established research centers in artificial intelligence.

Mitacs Expansion

Mitacs is slated to undergo an expansion of its applied workforce placement programs, with a goal of growing work-integrated learning placements from 3,750 to 10,000. The funding envelope to help achieve this goal will be $221 million over five years. The annual allocation of funds is heavily future-biased, with $80 million of the $221 million falling in the 2021 fiscal year – gradually growing from $12 million in the first year (matching previous funding for work-integrated learning initiatives) to $36 million in the second and $45 million in the third. This unusual time horizon points to rapid planned growth of Mitacs, but also presents some uncertainty in the long term.

Previous investments in Mitacs *Globalink*, which helped bring talented undergraduate and graduate researchers to Canada from nine partner countries, is not mentioned – although the planned envelope for this program is $7 million this year, based on the 2016 budget.

Skills

On skills, the centrepiece of the budget, the government has put together a multi-pronged strategy based on strengthening existing programs.

Labour Market Transfer Agreements & Employment Insurance

The biggest-ticket item on the budget agenda has to do with Labour Market Transfer Agreements: the Labour Market Development Agreements (LMDAs), The Canada Job Fund Agreements (CJF), the Labour Market Agreements for Persons with Disabilities (LMAPDs) and the Targeted Initiative for Older Workers (TIOWs). Collectively these programs transfer roughly $3 billion per year from the federal government to the provinces. A large-scale consultation last year conducted by the Forum of Labour Market Ministers suggested that the program both needed to become more flexible and needed to provide more assistance to workers who wanted to retrain while they still had a job, rather than wait until they were unemployed.

The federal strategy seems to be one of cajoling provinces into a better use of these funds, combined with an infusion of new funds. Most LMDA agreements were up for re-negotiation anyway; the federal government is now committing to adding another $1.8B over six years to improve the agreements. Additionally, some changes to the Employment Insurance Act will be made to allow a greater number of workers to access the funds. The other three programs (the CJF, the LMAPDs and the TIOW) will now be bunched together in a single “Workforce Development Agreement” bundle, which will similarly receive a $900 million boost over 6 years. The total boost to the combined funds will therefore be about $450 million per year or about 15%, though presumably inflation will eat away roughly half of this by the time the six years are up.

What does this actually mean in practice? It’s hard to tell; much will depend on the kinds of programs in which individual provinces choose to invest their money. The main outcome of this funding change is that provinces will have both more money and more flexibility to provide the labour market programs they already provide.

One other interesting change here is a proposed change to the Employment Insurance Act to allow Canadians to continue to receive EI benefits even if they return to training. Phased-in, this will cost the government roughly $38M/year, although with EI still running large annual surpluses, this is no major fiscal burden.

Canada Student Loans Program.

The Canada Student Loans Program got three big boosts in Budget 2017

1. **Improving support for part-time students:** The main change here is that the income threshold for the part-time students to qualify for the Canada Student Grant is being reduced. It is estimated that an additional 10,000 will thus be made eligible for the part-time grant by 2018-19; the change is expected to cost $17 million per year once fully phased in.

2. **Improving support for students with dependents:** An extra $29.3 million per year (at full phase-in) is being added to the Canada Student Grant for Students with Dependents, also starting in the 2018-19 academic year. From the description in the budget, it does not appear as if students with dependents will receive more money, but rather that more people will become eligible to receive the award. Whether this is done by lowering the qualifying need threshold, or covering dependents up to age 18 (the current maximum is 12) is unclear.

3. **Implementing a pilot project to support returning adult students:** In the largest initiative for post-secondary students, the budget proposes to spend $287.3 million investment over three-years for “pilot projects” to test new approaches in helping adults returning to PSE qualify for Canada Student Loans and/or Grants. The intention is to alleviate the challenges that returning learners face in accessing SFA in a system long ago designed primarily for dependent young adults pursuing their first credential.

While these are all welcome moves, getting these changes implemented by 2018-19 could be a challenge, since any program changes rely on provincial co-operation as they are the ones who actually deliver the programs. Several provinces – not least of which is Ontario - have announced significant transformations to their own student aid systems for 2018-19, and implementing a new federal program that could interact with already-planned changes may prove difficult. The provinces' desire to co-operate may also be less than full if the changes are seen as temporary or likely to change again in the near future.

Perhaps more to the point it is not yet clear who the beneficiaries of such a program change might be. The term "adult students" is not one which has any definition or meaning in the current program. Will it be defined by age? Length of time in the labour market? And while the initiative almost certainly means changing need assessment processes for adult students (something for which we at HESA have been calling for some time now); it is not clear what else it means. More loans? More grants? For full-time study? Part-time? Much, apparently, remains up in the air.

Expanding the Youth Employment Strategy

Budget 2017 directs an extra $395.5M in funding to the Youth Employment over 3 years ($150 million in each of 2017-8 and 18-9, the rest in 19-20, after which the funding falls back to its current base). As in 2016, this funding is focused on three areas: Green Jobs, "heritage jobs", and more programming through Skills Link for vulnerable youth. This is a major – if temporary – increase in a program which has a funding base of about $330 million. It is likely that the reason funding is not guaranteed past 2019-20 is that the government is waiting to see the report of the Expert Panel on Youth (due in the next few weeks) before committing to long-term funding.

Work Integrated Learning

Throughout the run-up to the budget, the post-secondary sector was more or less united in asking for funding to asking for increased Work-Integrated Learning (WIL) funding. As it turns out, the Government responded to the request by more or less by-passing the institutions altogether and giving a whopping $221 to MITACS (see above, innovation).

FutureSkillsLab

Back in January, the Finance Minister's Advisory Council on Economic Growth's recommended creating a new agency with a $100M/year budget to develop, assess, and measure skills development. Budget 2017 goes several steps in this direction by allocating $225 million over four years, starting in 2017-18 ($75M/year when fully phased-in) to a new organization to support skill development and measurement. But the Budget does not name the future organization; nor is it even clear if the organization will be part of the

Government of Canada. This is not accidental; there appears to be an unresolved debate between ESDC and Finance as to what form the organization will take (ESDC wants something to be run through the Forum of Labour Ministers, perhaps in an arrangement reminiscent of the Canadian Institute for Health Information, while Finance is apparently gung-ho for the full FutureSkillsLab arrangement).

This as yet unnamed organization will have three core mandates: identify skills required by employers, explore innovative approaches to skill development, and share information to inform future skills investment. These recommendations come reasonably close to the Advisory Council's recommendations to support innovative skill development, identify new sources for skill information, and define skills objectives and outcomes. The extent of the alignment between the new organization proposed in the budget and the Advisory Council recommendations will remain unclear over the next few months, as details are to be revealed.

Aboriginal Skills and Employment Training Strategy

In addition to the major increases in funds for Labour Market Transfer Funds, the Government has also provided a one-year increase in the financing of the Aboriginal Skills and Employment Training Strategy (ASETS). The program, launched in 2010 as a successor to the Aboriginal Human Resources Development Strategy, specifically seeks to connect Indigenous peoples to skills training programs, and the budget grew to reflect "growing demand" from Indigenous peoples. In the 2016 Budget, this program was granted a $15 million budget over two years. The 2017 Budget provides a one-year $50 million boost for the program.

Post-Secondary Student Support Program (PSSSP) & Indspire

The PSSSP provides money to First Nations who in turn support individual students. Growth in the program has been capped at 2% per year for many years now while costs and eligible student numbers have grown. In their 2015 manifesto, the Liberals promised to increase PSSSP by $50 million per year, but failed to meet that commitment in the 2016 budget. This year they mostly came good by providing $45 million for each of the next two years, which constitutes a roughly 14% increase in total program funding. What is slightly odd about the announcement is that the money appears to run out after two years. The likely explanation here is that the federal government is thinking of reviewing the program and does not want to commit to funding it beyond the date of the potential review.

Though the $45 million per year fall short of the $50 million per year campaign pledge, the government has nevertheless lived up to its promise in a slightly different way. In addition to the PSSSP changes, the government has also committed to provide the Indigenous-led charity *Indspire* with an annual $5 million grant over the next five years, on the condition that the charity raises $3 million in matching funds from the private sector. This represents a significant increase to the charity's funds, as they granted some $12.2 million in 2015-16. They anticipate some 12,000 Indigenous students receiving bursaries and scholarships over the next 5 years.

VARIA

Improving Access to the Canada Learning Bond.

Since its inception in 2005, the Canada Learning Bond has been plagued by low take-up rates. The program provides an initial free $500 for a registered education savings plan for children from low-income families, and $100 every year thereafter where the family remains low-income. It is meant to create a "savings culture" and hence a long-term orientation towards post-secondary education among its beneficiaries. In this budget, the government allocates $11 million over five years to try to improve take-up rates. Why the Government does not take the logical step and make the payments automatic, rather than dependent upon parental take-up, is something of a mystery.

Pathways to Education

The well-known early intervention program originally started in Regent's Park has again received federal funding. In previous budgets this program has consistently received $6 million per year since 2012. Budget 2017 commits the government to provide Pathways with $38 Million over the period 2018-19 to 2021-22. On an annual basis, this is a significant increase over previous investments. Of interest: despite having spent close to $26 million over the past few years, as far as we can ascertain, there has yet to be any program review to evaluate its effectiveness. One might have thought such a review was necessary before more money was committed to this program.

Coding

Budget 2017 provided a much-expected investment for coding education, with a proposal to invest $50 million over 2 years to “help provide coding and digital skills education to more young Canadians.” Since the federal government is obviously not in a position to directly deliver coding education in schools, they will instead seek funding proposals from digital skills training organizations to be submitted via a competitive process.

Global Skills Strategy

The Budget provides some significant detail on the Government’s new immigration initiative called the “Global Skills Strategy.” There are two items of note which are of interest to post-secondary institutions. First, the Temporary Foreign Worker (TFW) Program and the International Mobility Program will receive budget increases of nearly $50 million per year. More importantly, the budget announced an additional $7.8 million investment in what seems to be a “carve-out” from the TFW program. Starting in 2017-18, a new Global Talent Stream program is intended to draw in highly skilled workers from overseas - including university students and faculty. This budget proposes changes to immigration categories and programs that help to attract such candidates to Canada, for example by facilitating short-term visits through a new 30-day work permit exemption enabling “brief academic stays…[for] study exchanges or the entrance of temporary expertise.”

PromoScience

Budget 2017 also provides funding for the promotion of STEM to young Canadians through the PromoScience Program, which was introduced in 2010. PromoScience funding is provided to post-secondary and K-12 institutions to support STEM learning for young Canadians, in particular those from groups currently underrepresented in STEM disciplines. The 2017 budget proposal would see an investment of $10.8 million over five years, starting in 2017–18. Whether this is a renewal of PromoScience’s previous funding package or a top-up to its existing budget is unclear.

CONCLUSION

Budget 2017 is uneven: some parts are good, others not so good.

Unequivocally, the Skills component is excellent. The money for Indigenous peoples is a great step, as is the commitment to provide more help for mature students. The biggest investment, on skills training, properly goes to the provinces through the existing Labour Market Transfer arrangement and the amalgamation of several of these transfers means that provinces will have more flexibility in designing new programming. One could quibble about the lack of detail on some programs (e.g. the CSLP "pilot projects"), but that would be churlish. And the one initiative that had the potential to be a disaster (FutureSkillsLab) has been hedged in such a way that the government can take several more months to get the essentials right (which means spending lots of time with the provinces). Overall, the Government has done good work here, and unlike last year, their efforts cannot be derided as solely university-focused; colleges will do well out of the training provisions.

An aside here: universities and colleges have not got what they asked for on Work-Integrated Learning, but I think the government has done the right thing by putting all its eggs in the MITACS basket. Effectively, the government has said it is happy to play a role in Work-Integrated Learning, but only for graduate students, where the outcomes are tied to other policy goals around innovation. Undergraduate students? College students? No thanks, that's a provincial responsibility. That's both shrewd and respectful of provincial turf.

The Innovation section is not great, but the thinking on display is a lot better than it has been for most of the last 12 months. The government still confuses growth policy with innovation policy, but at least it has realized that innovation is mostly about firms. There are all sorts of justifiable trepidation about government "picking winners," and no doubt regional jealousies will play an outsized and unwarranted role in the final set of decisions, but you know, baby steps.

Where the budget really falls down is on Science. Between the unconscionable stalling on the publication of David Naylor's report on Fundamental Science and now the funding freeze - not to mention the ongoing fiasco at CIHR - the nation's academic scientists are going to be at war for funding. Any goodwill the government fostered from last year's bump of council funding is almost certainly gone. For a government that prides itself on being pro-science, they have a big communications challenge ahead of them for the next 12 months, even if they do intend to make big investments in the area next year, as some have suggested.

On the whole, there is more to like in this budget than not. Students in particular will be happy. But the government has squandered an enormous amount of goodwill among scientists. Expect a lot of sniping from this quarter: and it'll be aimed not just at government but at the university administrators. Universities Canada's decision to not criticize the government, even a little, over the granting council snub will almost certainly not play well in laboratories across the country. Stay tuned.