



**Higher
Education**
STRATEGY ASSOCIATES

Response to the Ministry-Provided
Questions for the Blue-Ribbon Panel
on Financial Sustainability in the
Post-Secondary Education Sector

Higher Education Strategy Associates

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Higher Education Strategy Associates (HESA) is a Toronto-based firm providing strategic insight and guidance to governments, postsecondary institutions, and agencies through excellence and expertise in policy analysis, monitoring and evaluation, and strategic consulting services. Through these activities, HESA strives to improve the quality, efficacy, and fairness of higher education systems in Canada and worldwide.

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Question 1:

How could the Ministry of Colleges and Universities’ (“the ministry’s”) funding approach and associated levers (including operating and special purpose grants, student financial assistance, performance-based funding and Strategic Mandate Agreements) best drive institutional excellence? Consideration should be given to:

- **Increasing program offerings that are labour market relevant and align with employer and local community needs.**
- **Providing sufficient labour market information to help students make informed choices and transition into the labour market.**
- **Responding to students needs/choice and demonstrating value for money.**

Firstly, While HESA commends MCU’s desire to improve the system using mechanisms available to the Ministry, we are concerned with the assumptions inherent in the question. Institutional excellence is a function of several different aims. The bullet-points above cover but a narrow subset of the actual goals of postsecondary education. The greatest benefits of postsecondary institutions extend far beyond the metrics of immediate employability of graduates. The most successful institutions and systems across the world are not defined by their alignment to immediate labour market needs or student demand, but rather are distinguished by their ability to shape and advance innovation, progress, and development. Admittedly, these are far more difficult to evaluate and thoughtfully promote for MCU, but if the Ontario PSE sector is to thrive and have a real impact on the future of the province, it must be conceived of as more than a site of production for Ontario’s labour market, whose link to impact on progress and innovation in the province might be conceived as tenuous.

Secondly, the list of tools proposed here are all financial in nature. We think this represents a misunderstanding both of how these tools work and of how to motivate change in higher education. MCU would be better served supporting higher education institutions (HEI) by systematically identifying and spreading good practice, legislating / creating policy to that end, and then ensuring that high standards are upheld through quality assurance.

With respect to labour market alignment, in our experience most universities are already designing programs with the labour market in mind. We are also not aware of a glaring mismatch between existing programming and labour market demand. Data collected through graduate surveys funded by the Ministry shows high employment rates and rising salaries. The Ministry is presumably aware of the same surveys, so we infer that the problem is not so much employment rates or salaries, but the ability of institutions to turn out employees in what are considered “hot” markets and for which skills are deemed to be in shortage.

We would simply first note that the timeline for getting people into new occupations is quite long at the university level – a minimum of seven years from a program’s conception to its first graduates. This is a major constraint on institutions’ ability to ameliorate short-term skills shortages. That does not mean that institutions should not be responsive to labour market needs; but it does mean that governments need to be realistic about what they can expect institutions to achieve in the short term.

In the longer term, the issue is mainly one of labour market *foresight*: that is, how can institutions and businesses work together in order to avoid shortages in the first place? This is an excellent question: however, here again, governments need to be realistic about what is possible. Canadian HEI-industry consultations have a tendency to over-privilege the perspectives of large, established companies with legacy technologies and a long history of HEI partnership. Large employers like these tend to operate in catch-up mode, with future-proofing as more of an aspiration than a reality. So, in order to get ahead of emerging industry and job market trends, HEI-industry conversations would need to incorporate the perspectives of the more agile, emerging businesses in those “hot” sectors likely to be the vital employers of tomorrow.

With respect to providing better labour market information (LMI), we do not wish to dissuade the government from providing more LMI and linking this to information about available academic programming, but we would suggest that this is not really the responsibility of individual institutions: only if it is done centrally will it be possible to assure data comparability for users. There are plenty of examples of these kinds of data-provision initiatives, the best of which for undergraduate students is probably Australia’s QILT system. Again, we would recommend caution with respect to expected results. The evidence that students pay much attention to labour market data when making program choices is thin. Despite what policymakers might wish were true, students do not behave in a *homo economicus* fashion but rather pursue programs which interest them and for which they feel they have an aptitude.

Finally, with respect to ensuring student choice and demonstrating value for money: Ontario institutions *already* deliver more value for public money than any other system in Canada, because they are working on so little of it. In terms of public funds, each graduate in Ontario costs about half of what they do in other provinces (see Figure 1, below). As for student choice, we would make two points. First, government needs to be aware of the tension between “student choice” and “labour market alignment”. The interests of students and the interests of employers are never going to be entirely aligned. Second, it is not clear that there is much evidence that students are disappointed about the range of program choices. There is some evidence that what they dislike are rigidities *internal* to programs: the proportion of classes available via remote teaching, more flexibility to allow faster or slower completion, etc. But these complaints may be quite specific to individual programs and not necessarily amenable to a system-wide solution.

Question 2:

How do we ensure sustainability through sound institutional financial health practices, continuous improvement and healthy competition in the postsecondary education sector? Consideration could be given to, among others, i) measures that generate revenue, ii) measures that reduce costs, iii) governance and accountability framework of institutions to ensure ongoing financial viability iv) compensation, talent attraction and incentivizing productivity gains and v) credential qualification structures and program architectures.

Outside of government grants, domestic tuition fees, and international student fees, two of which the present government have either cut or allowed to be eroded in real terms, all other sources of income are minimal in net terms. There are ways to earn money in more commercial fashion, but most of these also require substantial expenditures as well so the impact on net income is relatively small. Only the recruitment of international students represents an area for real gain, which is why Ontario institutions – in particular, community colleges – are increasingly reliant on them for their income, thereby vastly increasing the number of non-permanent residents in the province, and thus contributing to a housing crisis.

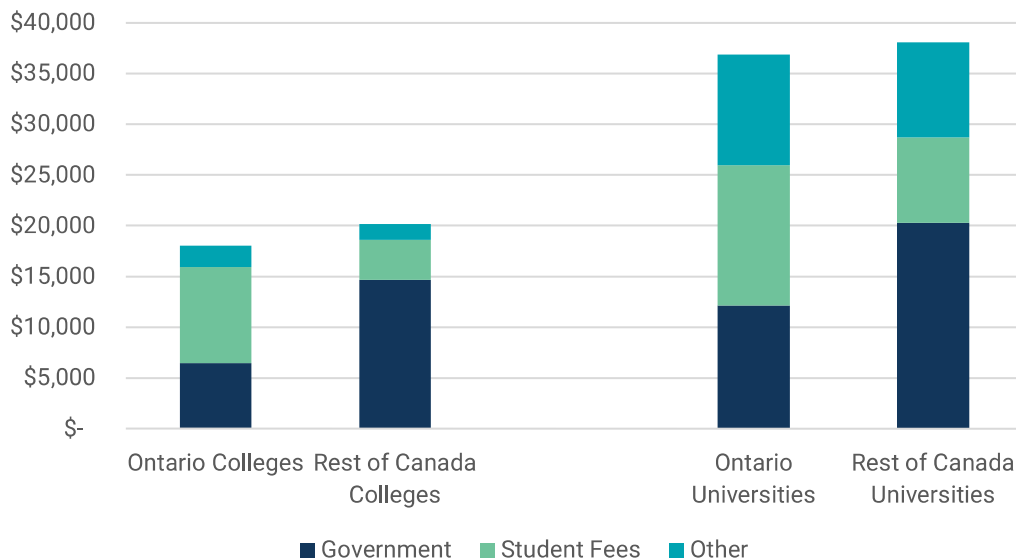
With respect to the proposed items for consideration:

- 70-75% of costs are salaries. MCU could push institutions to reduce salaries in real terms but effectively cost reduction means staff reductions and these are inevitably disruptive. Some institutions could surely benefit from a bit of restructuring in the way University of Alberta did, but at best that would yield one-time savings in the 10% range and then the slow, inexorable rise would continue.
- Most Boards have very little understanding on the nature of the drivers of university finances. An obvious back-up to better Board oversight is to have the Auditor-General do an annual review of universities' and colleges' books, as is the case in Alberta.
- There are lots of things institutions could do improve productivity. Greater use of teaching-only faculty is the most obvious. But it is hard to see how sector-wide initiatives could incentivize that.
- New types of credential qualifications (e.g., micro-credentials) might be useful to institutions financially and meet some kind of market niche, but only at the margin. As for program architectures: in theory, one could re-design the system around three-year degrees as in Europe and that would reduce costs by reducing the amount of time students need to spend enrolled in universities. But such a large-scale reform would require extensive and potentially fraught engagement with the institutions. The largest and most prestigious institutions have market-making power and could simply reject such a model.

There is, of course, a much simpler solution to the whole sustainability question. And this is, simply, to increase provincial funding. While we acknowledge the value of “fiscal

responsibility”, Ontario universities and colleges are already far more reliant on private funding than any other set of institutions in Canada. The only real answer here is better funding, and calls for fiscal responsibility ought not to serve as distractions from this need. Public funding in Ontario is so low that in many years, all nine other provinces are above the national average. If *all other provinces* can fund universities at \$20,000 per student and colleges at \$13,500 per student, there is no particularly good excuse for Ontario to be funding them at \$12,000 and \$6,000, respectively. Increasing funding is a perfectly viable policy choice and the provincial government should not pretend that it isn’t.

Figure 1 – Total Income per Student by Source and Type of Institution, Canada vs, Ontario 2020-21



Question 3:

What are the criteria and objectives for a long-term tuition fee framework (TFF)? How can a TFF balance student and institutional needs? What other measures, outside of tuition, could be used to address costs, affordability and access for students?

Ontario had the best tuition/student aid policy framework in the country prior to 2019. Reinstating the old framework and everything will be fine. MCU could make adjustments to the phase-out rate if necessary, or make the inclusion criteria a bit less generous for independent students, if it is necessary to keep costs down. But bringing back the old framework is the best solution.

Question 4:

What changes to the funding approach could support greater sustainability for northern institutions and students, as well as support specialized institutional excellence amongst northern institutions? In addition to funding considerations, are there innovative delivery/institutional models that should be considered?

The clearest change that would support the sustainability of northern institutions is to increase the amount of funding they receive per student. Serving the North is difficult. Attracting faculty is hard. Class sizes in the north are by nature lower, meaning costs are inevitably higher (doubly so if they have duties to teach in French). They are, simply, more expensive to run.

To some extent, Ontario can offer online education to serve the North, but we would not expect dramatic cost savings from online delivery as the main cost driver is still the number of students per class or class section, not the physical infrastructure involved. While northern students could take asynchronous online courses offered by institutions in the south, students would likely see this as an inferior experience. Northern institutions, like other colleges, universities and Indigenous institutes, are specialised communities. We have found students to be hesitant to take online courses from far-off institutions for rational reasons: if they intend to stay and work in the north, a locally-familiar credential has greater economic and social value.

Serving the North well is difficult, costly, and requires investment. It cannot be done on the cheap.

Question 5:

How do we ensure a financially sustainable French language education system for FSL and Francophone students so that they have access to a range of quality programs and are prepared for a successful career? Are there innovative delivery/institutional models that should be considered? Could the ministry's funding levers be better/differently employed?

This was never really considered a problem prior to the creation of UOF and the self-evisceration of French-language programs at Laurentian, both of which are fairly recent developments.

UOF was not created to meet demand in the Francophone community: it was about creating an institution which the Franco-Ontarian community could control. That is not without value/merit, but at what cost? The government currently is funding two Francophone-only institutions, with a combined domestic undergraduate enrolment of 66 students, according to the province's own data.

UOF is still nascent and so it would be reasonable for MCU to afford the institution another year or two to prove its ability to attract students. However, a plausible explanation of the data is quite simply that Franco-Ontarians are voting with their feet and saying they prefer other schools (over 14,000 of them are attending other undergraduate schools in Ontario). One plausible way for Francophone institutions to reduce overhead would be to become affiliated with the University of Ottawa – which currently serves 62% of students listing French as a mother tongue – reasonably soon.

Question 6:

What is the role of international students within a sustainable and thriving postsecondary sector? Consideration should be given to the overall quality of the student experience including housing, as well as an assessment of the benefits, risks and opportunities for institutions and the province.

International students have many valuable roles to play in enhancing the system, in diversifying classrooms, supporting research, etc., but effectively requiring institutions to recruit very large numbers to balance their books creates incentives to prioritise numbers over the quality of student experience. It is not good that the sector receives roughly as much money from international students as it does from Queen's Park: it changes institutional priorities in very significant ways, one of which is to reduce their interest in working with local employers.

The recent flood of international students also, as noted above, adds to difficulties in local housing markets. Particularly in the case of colleges, which are largely focused on local catchment areas, enrolling large numbers of international students can shift the balance of value that an institution brings to a community, becoming a public good with a large caveat—access to education to be sure, but with the erosion of liveability and affordability in the community.

The government could at least partially address the quality of student experience and housing supply by:

- allowing domestic tuition to increase
- incentivizing institutions to build more affordable housing for students
- following the recommendations made by David Trick six years ago with respect to regulation of public-private partnerships
- enforcing existing policy directives with respect to Public-Private Partnership Campuses.

But above all, the answer is simply to increase base funding to institutions, which the government is perfectly capable of doing.



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