
“Muddy” Data: University Financing in Canada

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Higher Education in Canada

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Introduction

It is a pleasure to have the opportunity to participate in this conference sponsored by the John Deutsch Institute for the Study of Economic Policy.

Queen's is a fitting place for this timely review of Higher Education in Canada. This university has a long and storied history of involvement in higher education in Ontario and Canada – especially since the expansion era of the 1960's and 1970's. Principal Corry and Principal Deutsch were instrumental in establishing the current funding regime and major forces to be reckoned with as Ontario struggled with the weighty issues of postsecondary education expansion to accommodate the 'baby boom'. Principal Watts and Principal Smith left their marks on Queen's and the university system in Ontario and, at the national level, played prominent roles in the higher education sector. Dr. Peter Leslie produced 'the' authoritative study on university financing for the Association of Universities and Colleges of Canada (1980)¹ and there are numerous other examples of Queen's persons – such as Dr. Roderick Fraser, president of the University of Alberta and a former member of the department of economics at Queen's - who continue to play significant roles in furthering higher education in the country.

The task today is to examine trends in postsecondary financing with an emphasis on the federal/provincial roles. My focus will be on 'direct' university financing although it is readily acknowledged college systems also have a major role to play in Canadian higher education. The term 'direct' applies to revenue received by the universities and thus this paper excludes financing associated with government student aid programs². Nor does it attempt to enter into the murky world of federal/provincial fiscal arrangements such as the Canada Health and Social Transfer (CHST). Other presenters on the conference agenda will be addressing those areas.

¹ Dr. Leslie's study should be required reading for all individuals interested in higher education funding. His findings and recommendations on such issues as provincial / federal roles in higher education, the support of university research, the funding of indirect costs, and income contingent loan repayment programs are as topical and valid today as they were twenty-five years ago.

² Individuals interested in a survey of government student aid programs and the level of government expenditures please see S. Junor & A. Usher, *The Price of Knowledge, Access and Student Finance in Canada*, Canada Millennium Scholarship Foundation, Research Series, 2002.

This review of federal / provincial funding of Canadian universities started out as a relatively straightforward exercise but quickly turned into a review of university financial reporting. Based on the premise that sound policy should be informed by solid, reliable information, there are some major “data” issues that must be addressed if policy makers are to develop a true picture of the state of university financing.

This paper begins by outlining some of the major data ‘challenges’ emerging from a review of two reports providing information on university financing in Canada; the recent *Education at a Glance OECD Indicators*³ report by the Organization for Economic Co-operation and Development (OECD), and a Statistics Canada report *Changing patterns of university finance*⁴. A number of data issues are identified here, raising some doubt about the reported findings and speaking directly to the need for the university community to focus more attention on the information used to inform policy makers.

Informed by some of the shortcomings associated with financial data, the paper then proceeds to examine basic trends in university finance in Canada, identifying key sources of revenue and the changes therein over the past 30 years. The findings suggest major shifts in the sources of funding over the period with private revenue – tuition, investment income and donations/grants – increasing markedly in contrast to government funding.⁵ However, it is instructive to note the important increases in both provincial and especially federal funding over the past few years. Further, it is important to recognize that governments are, by far, still the major funding source of universities.

University Financing in Canada – recent interpretations

In Canada, the major source of university financial information is an annual report entitled *Financial Information of Universities and Colleges* compiled by Statistics Canada based on a

³ Organization for Economic Co-operation and Development, *Education at a Glance OECD Indicators*, OECD 2003.

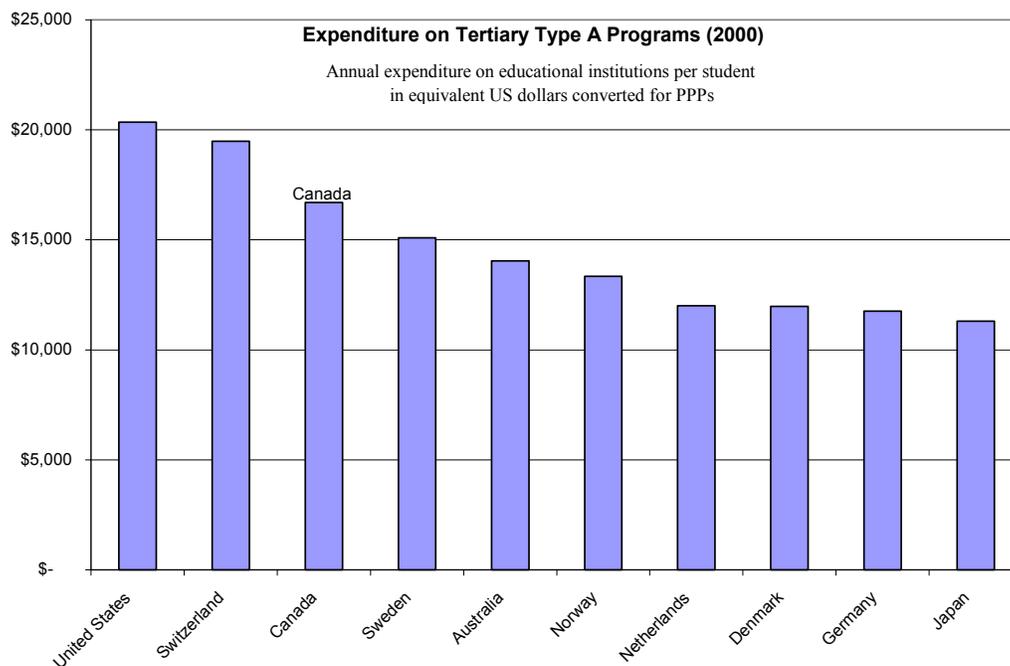
⁴ Statistics Canada, *Changing patterns of university finance*, Education Quarterly Review, 2003, Vol.9, no.2

⁵ There are clearly regional differences in the proportion of provincial government funding provided to universities, largely due to differences in tuition policies. For example, provincial grants constitute about 70 per cent of operating revenue in Quebec and Newfoundland – two provinces that have adopted policies of lower tuition, while in provinces like Nova Scotia and Ontario, provincial operating grants represent about 45-50 per cent of operating revenue and then have higher tuition and fees to help compensate for lower provincial grants.

survey of all Canadian universities. The survey is actually administered by the Canadian Association of University Business Officers and is generally referred to as the CAUBO report. The CAUBO report is used by Statistics Canada as the source for higher education financial data and is a major part of the information that finds its way into the Organization for Economic Co-operation and Development (OECD) publications. As such it plays an exceedingly important role in helping governments, researchers and individuals understand the financial situation of Canadian universities.

So let's begin by looking at two recent reports – one from the OECD and one from Statistics Canada, that use the data from the CAUBO report. These reports provide interpretations of the overall level of funding for higher education in Canada versus other countries and point to trends in Canadian university financing.

Figure 1. International Comparison of Expenditure on University Programs



Source: OECD, Education at a Glance, OECD Indicators, Table B1.1

A recent OECD study ranks Canada 2nd in **total** “tertiary education” spending per student and 3rd behind the United States and Switzerland in spending on Tertiary Type A programs (primarily

universities)⁶. Moreover, the study concludes that Canada is one of the few countries where spending on tertiary education has actually kept pace with GDP growth over the five year period (1995-2000). As Figure 1 above illustrates, the OECD report paints a reasonably good picture of the *relative* financial position of higher education in Canada compared to other OECD countries.

Turning to Canada specifically, what do we know about trends in university funding?

In 2003, a Statistics Canada report *Changing patterns of university finance*

indicated that:

- Government is accounting for a smaller proportion of universities' operating revenue over time;
- All sources of private revenue are increasing - tuition increases are by far the largest source of private revenue;
- Total operating revenue (after adjusting for inflation) on a full-time equivalent (FTE) basis increased by over \$1000 or over 8 per cent from 1986 to 2000.

Figure 2 provides a summary table directly from the Statistics Canada report.

Figure 2. Operating Revenue By Source
Per Full-time Equivalent Student, 1986-87 and 2000-01

	1986-87	2000-01	Change	% Change
	<i>\$ constant 2000-01 per FTE</i>			
Government	10,091	8,190	(1,901)	-18.8%
Student Fees	2,029	4,525	2,496	123.0%
Bequests, etc.*	47	135	88	187.2%
Investment	156	343	187	119.9%
Miscellaneous**	83	251	168	202.4%
Total "private" revenue	2,315	5,255	2,940	127.0%
Total operating Revenue	12,406	13,444	1,038	8.4%

*Includes bequests, donations and non-government grants and contracts

** Includes commissions, royalties, rentals, and library and similar fines.

The Statistics Canada article also noted that smaller universities “*experienced a greater decline per FTE in government support for operating revenue than the large universities.*” At the same time it was noted that “*Over the same 15 year period, small universities experienced an increase of 48% in operating revenues double the 24% recorded increase for large universities. However*

⁶ The table is derived from OECD data that in the case of some countries (U.S.) does not distinguish between levels of tertiary education. In fact, the gap between Canada and the U.S. for “universities” is considerably greater as reported in *AUCC Trends in Higher Education*.

enrolment for the small universities increased by 51% compared with 14% for the large universities.” p.13

Taken together, the preceding analyses suggest overall funding increased in real terms on a per student basis AND Canada’s relative position is reasonably good. Based solely on those two documents, cries of underfunding from the university community may be perceived as a bit ‘hollow’, although the Statistics Canada article does suggest smaller universities are being disadvantaged relative to larger institutions.

In fact, there are a host of issues and concerns swirling around the findings from reports like the preceding Statistics Canada report and the OECD report.

First, in both cases, the analyses are based on “dated” information. Significant increases in enrolment, alone, have occurred since 2000/01 and would have a major impact on the ‘findings’.

Second, in both studies, the financial information does not appear to account for factors that may overstate the financial situation by hundreds of millions of dollars. For example, the analyses fail to recognize major increases in university funded student assistance expenditures. These are mandated by government and effectively reduce the actual amount of income available for instruction, research and services (core operations). In the case of OECD comparisons, some, if not all, of those student assistance expenditures would be the purview of government not universities. In Canada, as governments have ‘off-loaded’ student assistance costs to the universities, the more recent revenue data overstates the value of tuition revenue and its contribution to core operations.

In a similar fashion the more recent CAUBO information employs the concept of ‘gross’ reporting rather than ‘net’, resulting in an ‘accounting induced’ increase in both revenue and expenditures in more recent years relative to the past. In the past, for example, “sales of service” revenue was largely confined to ancillary operations where universities operated residences, book stores and food services. In other parts of the university, revenue from sales of service was ‘netted’ against the expenditures associated with those sales. Since CAUBO made the change to

‘gross’ reporting in the late 1990s, the data is simply not comparable year over year and overstates the actual revenue and expenditures by at least \$500 million (2001/2). The Statistics Canada report cited earlier acknowledged the change in reporting and excluded sales of service revenues from the analysis. However other users of the report may not be aware of the change and it is unclear how the more recent CAUBO information is being treated for OECD purposes.

The analyses also fail to recognize the substantial investment required to support a strategy of enhanced revenue diversification, increasingly, a characteristic of Canadian universities. To the extent Canadian universities have been successful in increasing income from sources other than government (grants) and students (tuition and other fees), there is no recognition of the costs associated with generating those funds. Accordingly the increase in revenue and the revenue figure itself could be seen as misleading, especially in comparison with other countries where funding systems may rely much more heavily on government grants.

Third, the CAUBO data – despite best intentions – has a number of institutional reporting ‘quirks’ that cumulatively have a major impact on the overall levels of funding being reported, and thus the interpretations that may follow. For example, since the mid-1990s Queen’s University has been reporting the government grant from the Ministry of Health for the Alternative Funding Plan (AFP) in the school of medicine, in the same fashion as the provincial operating grants from the Ministry of Training, Colleges and Universities. What appears to be an increase in provincial funding is really just a change in funding practice employed by the provincial government. Prior to the AFP those funds – essentially direct payment for service fees to physicians – would have either not shown in the University’s financial documents or only a small portion would have shown in the Special Purpose Trust fund.⁷ Lest one think those sums are relatively small and “get lost in the noise”, the Queen’s AFP figure, alone, is in the order of \$50 million annually.

⁷ Usually in the form of ‘ceiling payments’. Individual physicians associated with the University would have a remuneration ceiling established based on physician fee-for-service incomes in the province. If the physician earned more than the agreed to ‘ceiling’ through fee-for-service income, the extra funds were paid to a trust fund in the physician’s department and used to help finance academic activities such as research projects.

Another example of institutional policies/practices affecting the comparability of data over time and among institutions is the move towards a more comprehensive definition of the ‘Operating Fund’. At one time the Operating Fund focused principally on government operating grants, tuition fees and a relatively minor amount of ‘other income’ from sales of services and investment income on operating cash flow. Universities themselves had a vested interest in keeping the “other funds” – donations and endowment income for example – segregated in a separate ‘fund’, usually Special Purpose Trust Funds. The intent was to clearly identify the activities and income under the purview of the province (grants and tuition) to ensure other funds generated by the university would not be taken into consideration by the government in computing institutional operating grants.

Over time, what had been a fairly simple distinction has become blurred for a variety of reasons: accounting regulations, government directives, new revenue sources, increased private-giving, institutional initiatives, greater organizational complexity, the impact of Maclean’s rankings, and the increasing recognition the university IS the sum of its parts – whether restricted or not. The longstanding argument from the academic community about the synergy between teaching and research, or the value of the ‘broader learning environment’ highlights the fact that separating university finances, or at least some of them, into specific ‘baskets’ may have been a somewhat artificial exercise. In the last decade individual institutions have taken steps to include other sources of income in the Operating Fund for a variety of reasons, including internal transparency and a desire to provide a more consolidated picture of the university’s financial situation.

Regardless of the merits of consolidation, however, the result is an overstating of university revenue (and expenditures) relative to past information. Accordingly, some portion of the change in general operating funding over a given period of time may well be caused by changes in the definition of the ‘General Operating Fund’.⁸ To the extent historical analyses focus on ‘operating funds’ (e.g. the Statcan report cited earlier) there is an ‘apples to oranges’ effect that overstates the revenue increases.

⁸ Universities tend to operate, financially, with two basic ‘baskets’ of income and expense; General Expendable Funds and Restricted Expendable Funds. The distinction is driven by restrictions established, usually, by external funders – research councils, foundations, donors, and government. Restricted Expendable Funds are exactly that – spent according to restrictions set by an external ‘funder’. Those monies contribute to the overall financial health of

While the focus of this paper is “financial” the reality is data issues spill over to other information often used to construct ratios or “\$ per” measures. For example, the use of a simple Full-Time Equivalent (FTE) enrolment measure does not recognize differences in the discipline composition of the enrolments, nor the undergraduate / graduate ‘mix of students. Why does that matter? There are differences in program cost (and revenue) associated with programs and level of instruction. To the extent that comparisons are being made it is important to recognize those differences. The Statistics Canada report cited previously noted funding per FTE declined more for smaller universities than for larger universities and attributes the difference, implicitly, to the change in the number of students. While changes in the number of students may have affected that funding result, another factor was very likely that larger institutions had more expensive per student costs and hence larger provincial grants per FTE student. Those institutions have greater proportions of graduate enrolments, professional program enrolments, and specialized programs – all of which tend to be more expensive on a per FTE basis – than direct entry undergraduate education. If Statistics Canada had constructed a “weighted FTE” measure factoring in differences in program costs, the cited differences would have narrowed considerably.

The preceding examples are not intended to be exhaustive. Rather, the intent is simply to illustrate the primary source of financial data being used by policy makers at both the provincial and federal level, Statistics Canada, the Council of Ministers of Education (CMEC) and provided to the OECD has some reporting discontinuities and inconsistencies that overstate the actual revenue situation for Canadian universities by *hundreds of millions* of dollars relative to earlier years. Not surprisingly then government officials may have quite a different view of university finances than members of the university community. Further it is not all clear how the financial data is actually translated into the OECD comparisons. Efforts must be made to ensure greater transparency in the production of those figures.

the university but are not generally available for the basic operation of the institution. General Expendable Funds, on the other hand, are spent according to policies and decisions made by the university. Within the two preceding baskets are a number of smaller baskets – Restricted Expendable includes Special Purpose Trust, Sponsored Research and Capital, while General Expendable includes Operating, Ancillary and non-Credit programs. The preceding is the essence of Fund Accounting – monies are received in one “fund” according to specific purposes and spent for those purposes in that same “fund”.

CAUBO is in the process of trying to address one part of the problem –improving the year to year consistency and comparability of the financial information and noting major reporting changes.⁹ However, how financial data is then interpreted and used by agencies such as Statistics Canada and government ministries and how it is used for international comparisons poses another set of challenges for the university community that must be addressed as well. ‘Muddy’ data is part of the higher education landscape so tread carefully as you use it.

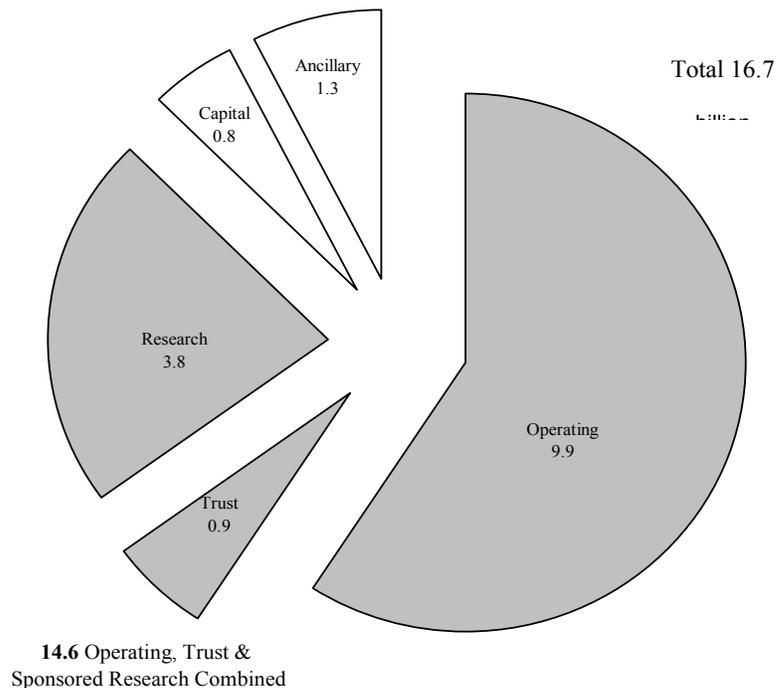
University financing – an historical review

With the preceding as background this paper now turns to a review of university financing with a focus on changes in revenue over the past approximately thirty years. Notwithstanding the preceding comments about ‘muddy’ data, the use of the financial data for highly aggregated ‘trend’ analysis is much more acceptable.¹⁰ To provide a more comprehensive picture and account for some changes in reporting definitions and institutional practices, the focus in this section of the paper is on three “funds” (see footnote 6 previously for a description of ‘fund accounting’) – General Operating (Operating), Special Purpose Trust (Trust) and Sponsored Research (Research). Those three funds constitute what might be considered the ‘core activities’ of teaching and research and related services and constitute almost 90% of total university revenues as illustrated in Figure 3.

Figure 3 Income by Fund 2001/02 (\$ billions) All CAUBO institutions

⁹ In fact, the current CAUBO Guidelines that accompany the survey instrument are intended to draw attention to the limitations of the financial data and users of the report are encouraged to read the limitations carefully.

¹⁰ The CAUBO Guidelines specifically note that “The data is most useful when aggregated and used for trend analysis. As users move from aggregated data to data that directly compares institutions, either individually or even between provinces or regions, the comparability of the data has limitations.” p.2 Guidelines, Financial Information of Universities and Colleges, Canadian Association of University Business Officers, 2000-01.



Since the early 1970s there have been marked differences in the rate of growth in each of those funds; with the Trust fund increasing from about \$15 million to almost \$950 million (a factor of over 60 times), the Research fund increasing from \$167 million to almost \$3.8 billion (a factor of over 20 times), and the Operating fund increasing from about \$1.1 billion to almost \$9.9 billion (a factor of 9 times). Analyses of university finances tend to focus on the General Operating fund and Sponsored Research fund as two separate entities. While there is reference to the Special Purpose Trust fund it is often not factored into the overall financial equation.¹¹

What accounts for the major differences in the rate of growth by fund? The simple answer is the composition of each fund (in terms of income sources) and the differential rates of growth in those income sources. Figure 4 illustrates the different composition of the funds. Income in the Operating fund is generated primarily from provincial grants and fees. Income in the Trust fund is derived from gifts and donations as well as a host of other sources. Sponsored research is

¹¹ See, for example, Association of Universities and Colleges of Canada, *Trends in Higher Education, 2002*. The financial figures in Trends differ a bit from the numbers in Figure 4 because the AUCC analysis excludes the university colleges in British Columbia – yet another factor that leads to the ‘muddy’ data noted earlier.

funded principally by federal monies, gifts, donations and non-government grants and contracts and by provincial grants.

Figure 4 Distribution of income by fund (\$000s) 2001/02

	General Operating	% of Total	Special Purpose Trust	% of Total	Sponsored Research	% of Total	Total Combined	% of Total
All Fees	\$ 3,246,203	33%	\$ 34,110	4%	\$ -	0%	\$ 3,280,313	22%
Provincial	\$ 5,824,935	59%	\$ 176,565	19%	\$ 728,692	19%	\$ 6,730,192	46%
Federal	\$ 69,662	1%	\$ 76,019	8%	\$ 1,686,420	45%	\$ 1,832,101	13%
Gifts and donations	\$ 74,072	1%	\$ 351,164	37%	\$ 1,098,778	29%	\$ 1,524,014	10%
Investment Income	\$ 149,818	2%	\$ 102,860	11%	\$ 43,852	1%	\$ 296,530	2%
All other	\$ 521,141	5%	\$ 208,185	22%	\$ 212,787	6%	\$ 942,113	6%
Total	\$ 9,885,831	100%	\$ 948,903	100%	\$ 3,770,529	100%	\$ 14,605,263	100%
% of Total	68%		6%		26%		100%	

Figure 5 indicates that relative to 1971/72, provincial grants and contracts is the only income source where the proportion has actually decreased.¹² As noted earlier, there has been a significant difference in the rate of change in the three ‘funds’.

Figure 5 Distribution of Total Combined income by source

	1971/72	% of Total	2001/02	% of Total
All Fees	\$ 209,598	16%	\$ 3,280,313	22%
Provincial	\$ 928,838	69%	\$ 6,730,192	46%
Federal	\$ 119,894	9%	\$ 1,832,101	13%
Gifts and donations	\$ 40,051	3%	\$ 1,524,014	10%
Investment Income	\$ 27,108	2%	\$ 296,530	2%
All other	\$ 24,716	2%	\$ 942,113	6%
Total	\$ 1,350,205	100%	\$ 14,605,263	100%

Figure 6 provides a review of the income sources since 1971/72. The changes since 1971/72 are adjusted for inflation and portrayed as an index to better illustrate the relative change.

Gifts, donations and non-government grants, have increased markedly over the period and help to explain the increase in the Trust fund as well as part of the increase in the Sponsored Research fund.¹³ A significant portion of that funding is from non-government foundations and companies

¹² The source of this data is the CAUBO Report. Although it is recognized there are discontinuities in the data, including the addition of some university colleges in British Columbia over the time period, the basic trends remain valid.

¹³ A portion of the increase in Sponsored Research is due to changes in reporting in the mid-1990s involving the inclusion of affiliated hospital research funding.

contributing to research – not basic operations. Moreover, it is difficult to establish the actual ‘net’ revenue associated with some of the components of this particular income source because of the varying costs of what is referred to as “advancement” – the actual fund-raising operation that must be paid for from somewhere in the organization.¹⁴ Nevertheless the change over time is impressive and a function of concerted effort by the university community to increase ‘private’ funding from alumni and other donors, companies and foundations. Governments have also played a major role by encouraging private contributions through changes in tax legislation, introducing ‘matching’ programs whereby the government ‘matches’ contributions for specific purposes and by requiring private contributions as a condition of receiving government monies.

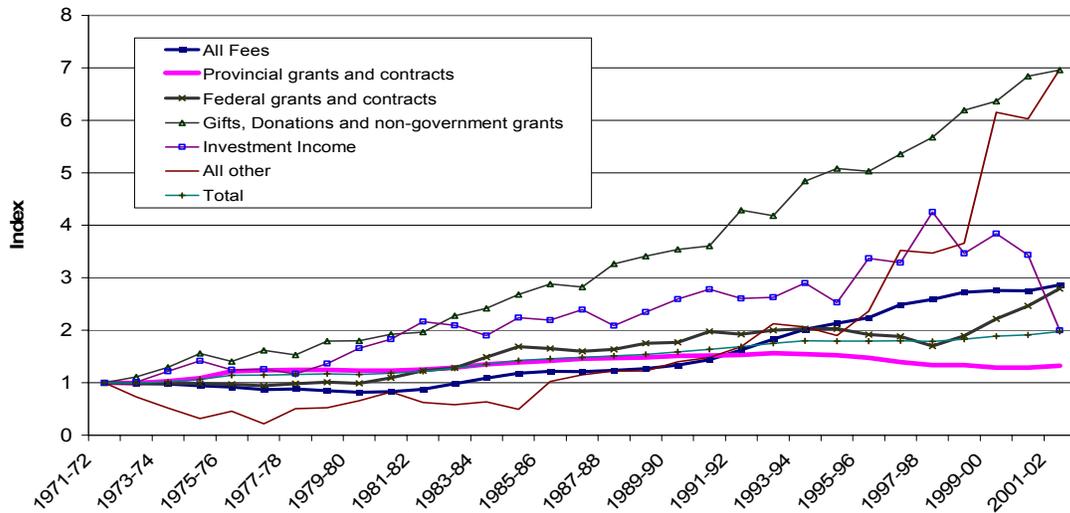
Investment income increased over the period although the downturn in investment returns in the most recent year (2001/02) indicates the volatility associated with that income source. Nevertheless, it provides a valuable addition to the revenue stream of many institutions and is responsible for contributing to the significant increase in the Trust fund where it comprises about 11% of the total income.¹⁵ While the increases in the preceding two major income sources have been significant it is important to remember the relative size of each of those sources of income. Gifts, donations and non-government grants account for about 10% of total income and investment income accounts for about 2%.

Much of the change in the “All other” category is actually due to the change from “net” to “gross” reporting that occurred in the latter part of the 1990s thus the apparent shift in the proportion of funding is, in fact, largely illusory.

¹⁴ Estimates of the ‘cost’ of fund-raising range from 10% to 25% of all dollars raised depending on whether the institution is in the midst of a ‘campaign’ or in-between ‘campaigns’ and depending on whether alumni relations activities are included in the numerator. In many cases the cost – whether it is 10% or 25% of every dollar raised – is actually funded by a combination of direct subsidy by the university, a portion of the investment income earned on donation cash flow and perhaps endowments, an overhead levied on donations and the retention of some (or all) of the ‘profits’ from affinity programs such as university credit cards, insurance, travel and sales of institutional branded goods.

¹⁵ Readers should keep in mind that the investment income is generated from university endowments (which have grown to approximately \$6.4 billion (2002) as well investment of cash flow. The figure of \$6.4 billion is from University Manager, Endowment and pension fund survey, CAUBO, Fall 2003.

Figure 6 Indexed change in income by source (adjusted for inflation)



Fee income has increased by a factor of three times over the period with steady increases from 1990 onward. Federal funding (grants and contracts) increased through the 1980s, decreased for part of the 1990s and then increased markedly from 1998/99. Provincial funding peaked in the early 1990s and then declined through to the end of the 90s before turning up slightly.

The contrast between federal and provincial funding is notable and highlighted in Figure 7. That particular graph could be the subject of a separate analysis that would highlight major changes in federal/provincial funding agreements. For example federal/provincial funding arrangements changed in 1977 and within a very short time thereafter direct federal support to sponsored research began to increase. Interestingly, 1977 also marks the date that the university sector tends to use as the starting point to chronicle the decades long decline in provincial grants per student (adjusted for inflation).¹⁶

However, the most significant difference between federal and provincial funding is the marked change in federal funding beginning in the late 1990s. The introduction of direct funding programs, such as the Canada Foundation for Innovation and the Canada Research Chairs, along

¹⁶ AUCC Trends 2002, Figure 4.6 p.61

with major increases in funding to research councils and a major contribution to the indirect costs of research has, to quote AUCC Trends “transformed the funding landscape for research in Canada...”¹⁷ In fact, because of the magnitude of the increases in federal funding, and the way the federal government decided to allocate the increased funds the *entire* funding landscape for university education has changed.

Figure 7 Indexed Change in Federal and Provincial income

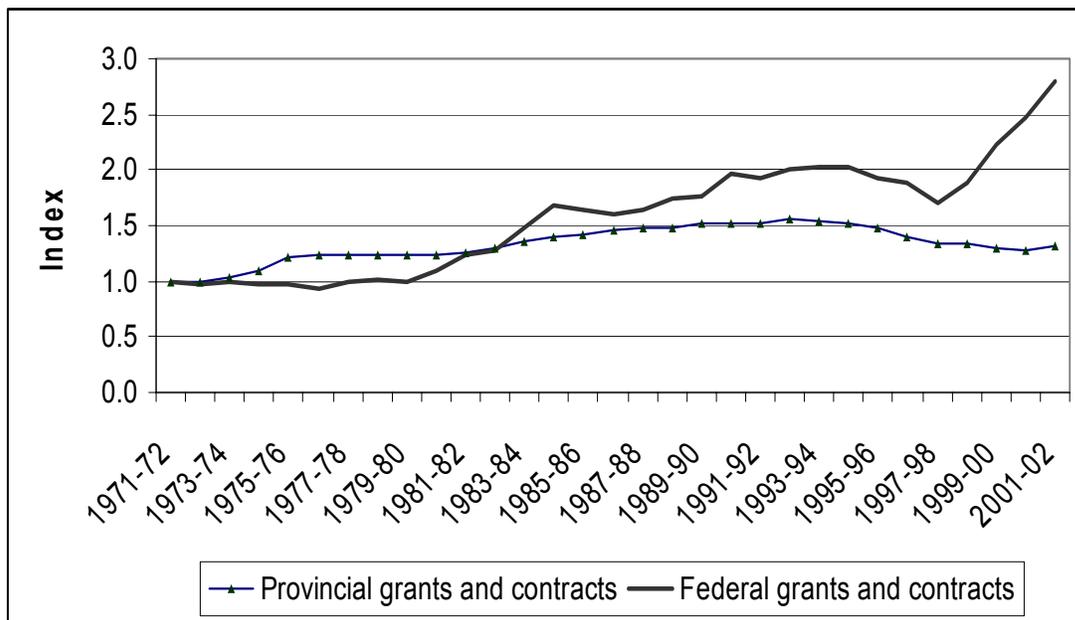
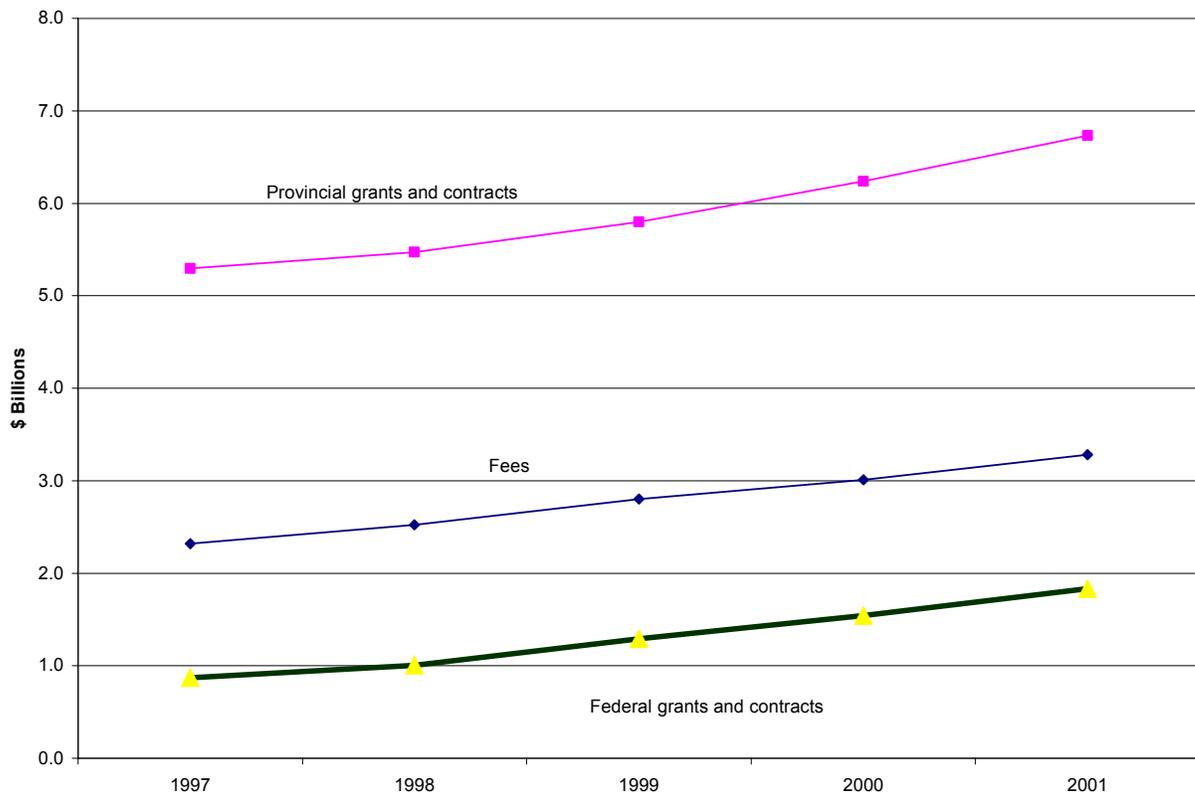


Figure 8 focuses on the last five years and examines the absolute changes in funding levels from the federal government, provincial governments and tuition - the three largest sources. In absolute terms, the provincial contributions have increased by approximately \$1.4 billion, the federal contribution by \$0.9 billion with tuition and other fees adding an additional \$1 billion. Virtually all of the federal increase is in the research area and almost 30 percent of the provincial funding increase is also in the research area – the latter generally in the form of ‘matching’ funds for CFI or targeted to specific provincial research initiatives. A significant portion of the remaining increase in provincial grants is related to specific enrolment expansion programs rather than general increases to address on-going cost increases. The ‘fee increase’ of \$1 billion

¹⁷ AUCC, Ibid., p.43

yields considerably less in discretionary income for ‘core operations’ once institutional student assistance is taken into account¹⁸ Nevertheless, investments by both levels of government (taxpayers) and by students represent a significant increase in revenue over the past several years. In light of those investments it is not surprising there are increased calls, from government, for strengthened accountability.

Figure 8 Operating, Trust and Sponsored Research Funding (major income sources)



Considerations

The significant increase in overall funding to universities over the past five years signals a major change in the federal presence. But the impact of direct federal investment carries with it added costs. At a time when universities are dealing with record numbers of students, the federal investment is requiring direct subsidies to support the increased research effort - despite the advent of some research overheads. Also, a significant amount of the provincial funding

¹⁸ Over those five years, expenditures on student assistance in the General Operating fund and Special Purpose Trust fund increased from approximately \$300 million to \$650 million per year.

increase (approximately \$400 million) is actually being directed to research - some to meet federal contributory requirements and some to demonstrate the provinces have their own research agenda.

Core provincial operating grants are not keeping pace with inflation and enrolment change. This reality, significant pressure on core operations funding, is the most worrying aspect of higher education funding. Since 1997/98 there have been major increases in enrolment - almost 80,000 FTE in the period 97/98 to 01/02 an increase of about 12% (AUCC estimates).

The federal investment is carefully considered by provincial governments as they craft their own budgets and the steering effects of the federal investments have not gone unnoticed by the provinces nor the universities. Moreover the impact on campuses in terms of priority setting and increasing concerns about “the haves” and “the have-nots” contributes to the unease associated with constraints on institutional autonomy.

Finally it is important to note that the allocation mechanisms for the federal monies are considerably different than for provincial grants and fees. In the case of provincial grants and fees there is a direct link to students –the institutions receive those monies based, largely, on enrolment levels. In the case of the federal monies the allocation mechanisms are largely driven by past research performance. The result is that the significant infusion of federal monies – while welcome – are having differential impacts across the country, an area that deserves further research to fully understand the implications for higher education in Canada.

Would universities be just as well off if the major increases in federal funding for CFI and CRC’s had been added as an earmarked transfer payment to the provinces and allocated through a provincial grants mechanism? Would there be a demonstrable difference in research performance? Would the university community be in a better position to increase capacity and accommodate the significant increase in projected student demand? If the goal is to secure appropriate levels of funding for BOTH teaching AND research should we be considering major changes in the way the teaching and research are funded – the United Kingdom model? Is it time for the provinces and the federal government to strike a post-secondary education “accord”,

simplify the funding flow and introduce an accountability framework that satisfies the needs of both levels of government and the universities? Perhaps it is naïve, as some have suggested, to think the federal government would even consider allocating the funds (or some portion thereof) through the provinces in light of the federal / provincial squabbles that seem to be the characteristic of Canadian federalism. Nevertheless the questions should be asked; the answers and further considerations are better left to the informed opinion of individuals such as David Cameron who have studied the federal / provincial dynamic in higher education for many years.

Concluding comments

Dealing with “muddy data” is a major problem for Canadian universities. The ‘muddiness’ contributes to misinterpretation at all levels – institutional, provincial, federal and international and may, in fact, leave policy makers with the mistaken perception that university financing is actually in pretty good shape. The university community would be well-served to devote some time, attention and resources to ensuring that financial information (and other information such as student enrolments and numbers of faculty) provides an accurate, comparable, and consistent picture of higher education in the country. The university community has a great story to tell but it needs to be based on good data.

The federal / provincial funding relationship has changed dramatically in the past several years in particular as the federal government – having cut the transfers to the provinces in the mid-1990s - has “reinvested” through a series of funding vehicles focused on research. Whether that is ultimately in the best interests of Canadian higher education is a matter of debate. What is clear however is that investment in research – while very welcome – has highlighted the funding shortcomings in core operations. Surely the time has come to begin considering the efficacy of the federal initiatives and workable options that may strengthen the federation and prepare Canada’s universities to meet the many challenges associated with increased enrolment pressures, faculty recruitment in a global market, the provision of a learning environment – at both the undergraduate and graduate levels – that ranks with the best in the world, and the

building of institutional capacity to translate the goals of the federal government Innovation Strategy¹⁹ into reality.

The last several years have witnessed a significant increase in investment from the major ‘funders’ of Canadian universities – governments (taxpayers), students and the private sector. Nevertheless, in light of the actual enrolment increases of the past few years, and projected enrolment increases well into the future, and, in light of the federal government’s desire to improve the relative international position of Canadian research, additional resources will be required. With continuing concern about affordability (and accessibility) greater levels of ‘public investment’ will be required to meet the resource challenge. How both levels of government respond – both in terms of the level of funding and the mechanisms used to allocate the funds – will have a long standing impact on higher education in Canada. One development is clear, however. Government, at both levels, will demand greater accountability for that investment and the university community would be well served to take a pro-active stance on financial reporting and telling the higher education story in ways that emphasize both transparency and outcomes.

¹⁹ Industry Canada, *Achieving Excellence: Investing in People, Knowledge and Opportunities. Canada’s Innovation Strategy*. Ottawa: Industry Canada, 2002

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