

Building on strengths, addressing weaknesses

**OCUFA's submission to the
University Funding Model Consultation**

September 2015

OCUFA

Ontario Confederation of University Faculty Associations
Union des Associations des Professeurs des Universités de l'Ontario

Building on strengths, addressing weaknesses: OCUFA's submission to the University Funding Model Consultation

September 2015

Ontario Confederation of University Faculty Associations (OCUFA)

The Ontario Confederation of University Faculty Associations (OCUFA) has been the provincial voice of university faculty since 1964. OCUFA represents over 17,000 professors and academic librarians in 28 faculty associations across Ontario. We represent both full-time tenure stream faculty and contract faculty members who work either on a limited-term contract or on a per-course basis.

17 Isabella Street, Toronto, Ontario M4Y 1M7
416-979-2117 | ocufa@ocufa.on.ca
www.ocufa.on.ca

Building on strengths, addressing weaknesses

When Ontario began to expand its higher education system in the mid-1960s, it made an important choice: to provide public funding to universities on the basis of a formula. Many jurisdictions, in Canada and beyond, do not use such formulae in their higher education systems. But there are clear advantages to such an arrangement. A funding formula supports the distribution of funding in a predictable, equitable way, that can be easily understood by those who study and work within our universities.

Nevertheless, no formula can remain functional forever, especially as the world changes and our expectations of universities shift. For this reason, OCUFA welcomes the University Funding Formula Review, initiated by the Government of Ontario in early 2015. We particularly welcome the opportunity to provide feedback into this process on behalf of the province's professors and academic librarians.

The university funding formula is deeply important to the success and vitality of Ontario's universities. It cannot therefore be treated as a laboratory to play with the latest fads in university finance. A measured and responsible approach to reforming the university funding formula should retain its greatest strengths, while correcting its flaws. The Government of Ontario, as the steward of the university sector, has the important task of working with the sector to identify these weaknesses and strengths, and rejecting harmful policy proposals masquerading as innovations.

This submission makes the case that the basic mechanic of the existing formula is sound, but needs to be updated and streamlined. It is also important to consider how the existing formula does not serve some universities – such as those in Northern Ontario – and how changes can be made to address these challenges.

We also argue that performance funding – currently a *cause célèbre* south of the border, chiefly among those who do not actually work in universities – is not the right approach for Ontario. There is no evidence that performance funding improves student outcomes, but there is growing evidence that it actually has a variety of negative effects. It also violates numerous principles outlined by the University Funding Formula Review team, while cutting against beneficial and collaborative processes for improving quality.

Finally, we suggest that the goals of transparency, accountability, and quality are best served by a new higher education data system. Such a system would be created and run collaboratively by the sector, with the goal of fueling meaningful policy discussions through the provision of timely and useful data.

Once again, OCUFA appreciates the opportunity to provide input into the University Funding Formula Review. We look forward to working with the government to build a university system that promotes quality while protecting the important principles that have allowed our institutions to be so successful.

OCUFA's guiding principles for a successful funding formula

When the Government of Ontario indicated their intention to move forward with a review of the university funding model, OCUFA released a set of principles to guide this process. We believe that any changes to the existing model, or new funding models, must be consistent with these principles.

As an overarching idea, it is important to recognize that robust and adequate public funding for universities is crucial for a strong and thriving higher education sector. The formula that establishes the basis for allocating operating funding for Ontario universities is foundational and should be designed to foster excellence in research and teaching while ensuring that postsecondary education remains affordable and accessible. However, if the basic amount of funding distributed by the formula remains inadequate to systemic needs, excellence, affordability, and accessibility will remain elusive goals. Universities in Ontario have been dealing with accumulated underfunding for years.

As such, any review or update of the funding formula must not be driven by a desire to further constrain government funding, but rather must aim to improve the quality of postsecondary education in the province.

To achieve this goal, OCUFA believes that the formula according to which Ontario's universities are funded should be guided by the following principles. Funding must be:

Adequate: Public funding for universities must provide adequate resources to support a high quality and affordable higher education sector.

Committed to core activities: A funding formula should protect and promote the two core activities of a university: excellent teaching and learning, and world-class research.

Student-centred: Funding must be responsive to the number of students in the system and the programs in which those students are enrolled.

Supportive of good jobs: Universities should receive adequate funding to support good jobs on their campuses. For faculty, this means ensuring fair terms and conditions of employment for contract faculty and hiring sufficient numbers of tenure stream faculty to maintain high academic standards and fair workloads.

Stable and predictable: Mechanisms should be put in place to ensure that funding is stable and predictable to facilitate long-term planning and to avoid extreme fluctuations in institutional revenue.

Equitable: Funding should be allocated among institutions on a fair and equitable basis to protect against wide variations in quality across the system and to support student success at all universities. Any system that allocates or withholds funding on the basis of institutional performance or output measures will result in the creation of "winners" and "losers" and will penalize students at institutions that fail to reach their targets.

Transparent: Any formula for allocating funding must be easy to understand, simple to administer, and objective. It should not be arbitrary or open to manipulation or negotiations behind closed doors. Above all, university funding must not be subject to short-term political objectives.

Respectful of university autonomy and academic freedom: Universities and faculty members have rich practical knowledge of their institutional and pedagogical needs and strengths. Any funding formula must respect institutions' and faculty members' ability to pursue strategies that enable them to do what they do best.

DRAFT

Overview of the existing funding formula

Ontario's university funding model contains two parts: an allocative formula, which distributes base operating funds to universities, and a variety of specialized funding envelopes which serve government or systemic objectives. The allocative portion will be the focus of this section.

OCUFA believes that the current funding formula contains certain strengths that should be preserved and updated, and a variety of weaknesses that should be addressed through reform. As an allocative mechanism, the formula does not determine *how much funding* is available to support universities' operating budgets, but rather *how funds are distributed* among institutions.

When the first iteration of the current formula was established in the late 1960s, it was designed to determine the level of funding needed to deliver quality education at each institution. The formula estimated the actual cost of educating each student according to their level of study and program. Each university was then provided with an operating grant that reflected the number of students they enrolled and the estimated cost of delivering quality education to those students.

Many of the key features of the funding formula are still drawn from this original model. The existing funding formula remains "student-centred" in the sense that the mechanism used to distribute operating grants reflects enrolment numbers. Enrolment is weighted by level of study and program by assigning basic income units (BIUs) that reflect the estimated relative costs of teaching and research. For example, more funding is needed to support the smaller class sizes and one-to-one mentoring of graduate students in their education as scholars than introductory course lectures for more junior undergraduates. The BIUs are designed to reflect this difference. On the program side, the cost of maintaining a lab for teaching and research in the physical sciences is more expensive than the parallel activities in the social sciences. More expensive programs are therefore assigned higher BIU weights.

In the current formula, the dollar value of the BIU is determined by the total amount of funding available (set by the Ontario Budget) divided by the number of BIUs distributed each year. Operating grants are then allocated to each institution based on their share of these eligible BIUs. A university's share of BIUs is not simply calculated on a year-to-year basis. Instead, it is based on their historical share of funding as of a particular reference year, with adjustments made according to the BIU model. This reference date can be changed over time, but it is not clear if it has been updated recently. The current edition of the funding manual uses 1986-87 as the reference year, and OCUFA is unable to determine if this date has been adjusted.

Beginning from this reference date, each institution's share of available funding remains the same unless their number of BIUs changes substantially. This is known as the "corridor model" and was put in place to ensure continuity and stability in funding for the sector. It also protects against institutions taking advantage of the funding regime by expanding enrolments to receive additional funds at the expense of other institutions.

The result is a method for allocating funding that has several strengths. At its core, it reflects the number of students in the system and the program choices of those students (albeit in a somewhat outdated way). Since the level of funding is not directly dependent on the actual enrolment in any given year, this model also supports a certain degree of consistency and predictability in funding. This stabilizing mechanism supports institutions in long-term planning. In addition, the formula treats all institutions the same, which helps to ensure equality – both in terms of funding and educational quality – across all universities in the province.

The current model also has weaknesses. First and foremost, in its current iteration it provides no mechanism for ensuring that the amount of funding each institution receives is adequate to deliver high-quality education. Currently, the funding formula is distributing a shrinking pool of public funds. It is estimated that, once all revenue sources are taken into account, public funding now accounts for only 27 per cent of total institutional income. While the level of public funding and tuition fees have been deliberately excluded from the funding formula review, it is necessary to consider *where* university revenue comes from, and if the balance between revenue sources is socially desirable.

Part of the problem in promoting and preserving funding adequacy is that there is no in-built mechanism that allows the BIU to maintain its value over time. When government funding is cut outright, the BIU value in a given year is reduced. The BIU can also be reduced in subtler ways. When overall funding levels are maintained, but not increased according to inflation, the value of the BIU is gradually reduced in real dollars terms.

In addition, the existing formula is complex and opaque, the result of dozens of changes and add-ons over its 40 year history. The complexity of the formula in and of itself is not a problem if it is adequately communicated with stakeholders and funding levels are predictable. However, exploring ways to simplify the formula to foster clarity and stability is a reasonable goal.

Recommendation One: Update the existing funding model while preserving a student-centred core.

It is important that the funding formula remain sensitive to the number of students in the system, and the program choices made by those students. An enrolment- and program-based mechanism for distributing funding is a sensible way to ensure institutions receive funding that reflects the number of students they are educating. The current funding formula is also sensitive to students' level of study and program, which helps to ensure that the distribution of funding recognizes the differential cost of delivering education. Any updated funding model should preserve these two elements – enrolment-based and weighted according to program and level of study – at its core.

While maintaining these key features, there are some updates that would facilitate a fairer and more sensible distribution mechanism. Consideration should be given to updating the funding reference year that is used to calculate BIU distribution and removing outdated formula fees from the formula. BIU weights should also be reviewed to ensure they reflect a functional approximation of the relative cost of education. In addition, OCUFA has long advocated that past envelope funds that have achieved their stated policy objectives should be folded into base operating grants. This would help reduce complexity in the system.

Promoting financial stability through the funding model

It is crucial that mechanisms are included in the model to ensure funding is stable and predictable. This will facilitate long-term planning and avoid extreme fluctuations in institutional revenue. A key concern highlighted by the University Funding Formula Review team is how to ensure stability in an environment where enrolment growth is slowing and, in some places, declining.

The current formula already includes a mechanism for guarding against harmful financial fluctuations – the corridor model. This component of the formula promotes continuity and stability by ensuring that each institution's share of available funding remain consistent unless their enrolment numbers change dramatically (the current threshold is whether a university's five-year 'moving-average' of BIUs has increased or decreased by three per cent). Throughout the early 2000s, this policy was largely used to prevent uncontrolled growth in enrolments. Most universities were subsequently allowed to exceed their corridors, as the provincial government made enrolment growth an explicit policy objective.

The corridor model should be retained as a stabilizer mechanism to guard against harmful fluctuations in university revenue. However, it should be reimagined as a backstop, not as a ceiling. The corridor was designed as a mechanism that could adjust to both enrolment growth and decline. With current enrolment trends in mind, the corridor could be adjusted to increase its ability to buffer institutions from enrolment decline. For example, the upper limit could remain three per cent, but the lower limit – below which funding would be reduced – could be increased to 10 per cent or more.

It is also important to recognize that many of Ontario's universities play important regional or access functions that must be funded irrespective of enrolment levels. Institutions that, for example, serve northern, francophone, or Aboriginal populations (or all three), may face significant additional cost pressures in fulfilling their special missions. Many of these institutions – and particularly those in Northern Ontario – are also vulnerable to demographic shifts, which may see their overall enrolment decline in the coming years. To help protect students from the potential harm inflicted by revenue loss, the Government of Ontario should continue to provide special funding to northern institutions and institutions with unique access missions or significant populations of students traditionally under-represented in higher education.

We have heard from many of our members that the current level of support for northern institutions is not sufficient to account for the unique financial challenges faced by these universities as they seek to serve their communities. Northern Ontario has unique social, economic, and political needs that need to be met, in part, by geographically and socially accountable educational programs. Funding these programs on an enrolment basis is likely not sustainable, as the per-student costs are higher than those reflected in the current BIU value. Moreover, funding these programs on the basis of enrolment does not capture the full value of these educational opportunities to northern communities. It is imperative that the new funding formula recognize the financial challenges faced by northern universities. It may in fact be necessary to create a separate funding model for these institutions. In either case, the second piece of the funding formula – special operating grants – are particularly useful in ensuring financial stability for northern and special-purpose institutions. The use of these grants – distributed according to need, not enrolment – remains a powerful lever for government to secure desirable outcomes in the sector.

Enrolment growth is the result of government policy, not the funding formula

Some observers have argued that the current funding model incentivizes enrolment at the expense of educational quality or other priorities. However, the underlying assumptions of this premise are flawed and are based on a curiously ahistorical perspective. Enrolment has increased because of demographic trends and explicit government policy decisions to increase enrolment, not because of an inherent feature of the funding model. For example, in 2011 the Liberal government committed to adding 60,000 new spaces at Ontario's colleges and universities, on top of the growth permitted by the funding formula. This had the effect of expanding enrolment, which was already trending up due to the need to accommodate the Double Cohort (the large bubble of applicants created by the elimination of the OAC year), the "echo boom" increase in university-aged individuals, and rising university participation rates. The design of the current formula allowed this growth to be accommodated, but did not spur the growth itself.

It is true, however, that the inadequacy of funding has fueled some distortions in the current system. Chronic underfunding has left universities chasing bits and pieces of funding wherever they can – sometimes by increasing enrolment in particular programs to bring in tuition fee income that offsets overall inadequacies in the per-student operating grant. In reality, the gradual decline in the value of the per-student public operating grant (now 30 per cent lower than the funding level in 1990), coupled with

the decision to allow tuition fees to rise, is much more responsible for enrolment growth than the funding formula. Universities get more money per student from tuition fees than they do from provincial operating funding. In an underfunded environment, this creates pressure to increase enrolment in order to maximize tuition fee income.

It has also been argued that since tuition revenue will necessarily always reflect enrolment numbers, the operating grants provided by the government could focus on driving other outcomes. There are two problems with this assertion. First, it assumes that tuition revenue will continue to account for a large portion of university revenue. This year, for the first time, tuition exceeded public operating grants as a source of Ontario universities' operating revenue. This balance of funding sources is the result of government tuition policy and is not static. In order to ensure higher education in Ontario remains accessible, it is desirable to see the proportion of funding accounted for by tuition fee revenue decrease. If the assumption that tuition fees should remain at historically high levels is entrenched into the funding formula, it will not serve the interests of students or their families.

Additionally, the assertion that the government could focus on other outcomes presumes that funding distribution mechanisms are an efficient way to incentivize behavior. There is little evidence that this is the case, as will be discussed in more detail in the next section of this submission. Instead, funding should focus on what it can actually achieve. The model can and must account for the number of students in the system so that the distribution of funding at least approximates the cost of delivering university-level education. This is a key feature of a funding model that will provide a foundation for ensuring quality in Ontario's higher education system.

Supporting excellence in teaching and research

The Government of Ontario is right to be concerned about the quality of teaching and research in Ontario's universities. These are the core missions of our universities, and both need to be adequately resourced in order to flourish. The quality of teaching and research provided by Ontario's universities is, first and foremost, a function of the resources that are put in to support teaching and learning. By this measure, Ontario is not doing well. We currently have the lowest level of per-student funding in Canada, lagging 34 per cent behind the national average. This has predictable results: class sizes go up (Ontario has the worst student-to-faculty ratio in Canada); tuition fees rise (Ontario has the highest fees in Canada); and infrastructure crumbles (the Council of Ontario Universities estimates deferred maintenance at Ontario's universities now amounts to \$2.49 billion). The university funding model is a mechanism for distributing financial resources. If the amount of money to be distributed is inadequate, then quality will invariably suffer.

Without a foundation of adequate funding, the funding formula simply cannot promote quality teaching and learning. The incentives are meaningless if the physical and financial resources do not exist. The idea that performance metrics or other incentives can force universities to do more with less has no basis in evidence, and no demonstrated record of success. In order to improve teaching and research, the Government of Ontario must instead seriously examine how to provide adequate per-student funding to universities. This will have the simultaneous benefit of improving the student experience,

while removing the incentive for institutions to stray from a focus on their core missions of teaching and research in frantic efforts to secure new money to make up for insufficient levels of government funds.

In recent years, there has been a renewed interest in the quality of teaching at Ontario's universities. OCUFA welcomes this interest, as teaching – particularly at the undergraduate level – has too often fallen off the top of the priority list for many institutions. However, outside of increased funding, it is difficult for the Government of Ontario to incentivize a greater emphasis on teaching within our institutions. OCUFA has long argued that teaching should be given equal weight to research in tenure and promotion processes. Moreover, faculty members should be given the flexibility to focus on teaching or research, without any penalty to their careers. But we are contending with powerful trends. Research builds institutional prestige, and provides access to new sources of funding. In an underfunded environment, universities have become adept at pursuing these benefits, which has in turn distorted the balance between inquiry and teaching. Adequate public funding would remove this pressure, and allow for a rebalancing of priorities.

DRAFT

Recommendation Two: Punitive performance funding should not be included in the funding formula review

Performance- or outcomes-based university funding is a system whereby a portion of the government's operating grant for a particular institution is dependent on whether that institution is able to meet a set of targets. Several observers – notably the Higher Education Quality Council of Ontario (HEQCO) – have argued that such a policy would be a useful component of a reformed university funding formula.

While the basic idea of performance funding is straightforward, the policy can nonetheless take on different forms. For the purposes of this submission, we can distinguish between three primary types of performance funding:

1. *Funding that is awarded when a university fulfills a reporting requirement.* This type of performance funding already exists in Ontario, through the General Quality Grant and related envelopes. These grants currently amount to \$154.3 million, or four per cent of the total operating grant received by universities. To qualify for this funding, universities are required to submit their yearly Multi-Year Accountability Agreement (MYAA) reports.
2. *Funding that is awarded according to institutional targets.* In this model, universities would negotiate a series of targets, both at the system level and specific to the profile and objectives of the institution – for example, retention rates, enrolment of under-represented groups, or growth in co-op learning opportunities – and would receive funding based on their success at meeting these targets. If a given university fails to meet a target, the government would have the option of holding back a certain portion of the institution's operating grant.
3. *Funding that is awarded according to competitive targets.* In this system, the government would set a variety of system and institutional level targets. Institutions would then be ranked according to their success at meeting these targets, and would be awarded funds according to their relative ranking. More successful institutions would receive more funding than less successful institution, irrespective of the size of the institution. In this model, universities that fail to meet their targets, or are ranked lower than their counterparts, may not receive any performance funding at all, placing them at a severe financial disadvantage.

Those advocating for performance-based funding argue that it would help ensure that universities are responsive to the goals of government, while providing an incentive for improvement. They also argue that performance-based funding – in contrast to the current block grant with supplementary envelopes – would increase the ability of the government to “steer” universities. These arguments raise a variety of questions: Is there a problem with the accountability of Ontario universities? Are universities in the province not already providing quality education, within existing financial limitations? Is it desirable for the Government of Ontario to exert more control over universities? As answers to these questions have not been advanced by either the Ministry of Training, Colleges, and Universities (MTCU) or advocates for this model, performance-based funding begins to look very much like a solution in search of a problem.

Even if we consider performance-based funding on its relative merits alone, there are convincing reasons to be cautious about implementing such a system in Ontario:

- The bulk of the North American research provides no clear evidence that performance-based funding improves outcomes;
- Performance-based funding is supported by a worldview that misapprehends how universities actually improve; and
- The reality of performance-based funding violates many of OCUFA and the University Funding Formula Review's key principles for a successful funding formula.

The lack of evidence for performance funding

One of the principles of evidence-based policymaking is that there should be a compelling and demonstrable reason to adopt a new policy, particularly where a large sum of public money is on the line. In the case of performance-based funding, supporting evidence is hard to find. In fact, there is an increasing body of research that suggests these policies are actually harmful to student outcomes.

The lack of evidence is not a result of a lack of examples. From an international perspective, performance-based funding has been introduced in a variety of jurisdictions around the world. In Europe, Denmark, the Czech Republic, the Netherlands, and Germany all provide funding based on student progress and completions, as well as some funding for research outcomes. European jurisdictions are generally not great comparators for Canada. With the exception of the United Kingdom, most European countries feature a greater level of state control over higher education, although this is beginning to change (Neave, 2012). The lines of effect between a performance-based funding policy and higher education institutions are therefore much clearer. Even so, the effectiveness of these funding regimes have not been seriously evaluated, so it is difficult to know if they have been effective even in local contexts.

In the United States, 34 states have implemented, are implementing, or are considering some form of performance funding. The type of performance funding currently being advocated by organizations like the Lumina Foundation and the Bill and Melinda Gates Foundation is often referred to as "Performance-Funding 2.0." Such schemes emphasize student retention, completion, and the quality of student learning. They are designed to be implemented in response to specific concerns about retention and completion in given states. Advocates for performance-based funding in Ontario – such as HEQCO – can be understood as part of the Performance Funding 2.0 movement.

HEQCO's advocacy for performance-based funding is not supported by its own research. The organization recently released an "extensive review of outcomes-based funding models used in postsecondary education and their effectiveness." It found that, "research on outcomes-based funding of higher education has shown little evidence that these policies are associated with improved student outcomes." Similarly, a recent study published in the journal *Educational Evaluation and Policy Analysis* found that performance funding had no discernible effects on retention or degree completion at

Washington State's community colleges, when compared with jurisdictions without performance funding mechanisms (Hillman, Tandberg, & Fryar, 2015).

A 2013 policy brief from the Wisconsin Center for the Advancement of Postsecondary Education (WISCAPE) concluded:

"Results suggest the [performance funding] policy has not been significantly effective for increasing associate or baccalaureate degree completions in performance funding states, and it may even have had negative effects in some states."

Similarly, a 2014 study which examined data from 500 postsecondary institutions in all 50 states over 18 years found that, "student outcomes are related to student profiles, institutional characteristics, and state environments but are not enhanced by performance funding policies" (Rutherford & Robovsky, 2014: 203). Moreover, "student outcomes may even decline following the adoption of these policies. At best, these policies are ineffective, and, at worst, they are negatively linked to student performance" (2014: 204).

There is also a growing body of scholarship that examines the potential unintended consequences of performance funding policies. Hillman, Tandberg, and Fryar (2015) found that a clear response to performance funding in Washington community colleges was the increased granting of short-term certificates. These credentials have limited labour market utility, but have the advantage of moving students through an institution quickly, thereby protecting student retention and graduation rates (often key metrics in performance funding regimes). In this case, performance targets have been met by accelerating students through the institution, but graduates are left with a questionable credential on the other end.

Evidence suggests that another unintended consequence may be the raising of admission requirements, with negative implications for equity and access (Dougherty et al, 2014). More qualified – or at least better prepared – students are more likely to persist to degree completion, again boosting performance statistics. This is a powerful incentive to increase admission requirements, or to privilege students with a greater chance at completion. There is a clear relationship between university performance persistence with socio-economic and demographic characteristics of students. Individuals from lower-income or racially marginalized backgrounds are at a disadvantage in terms of university attainment. By incentivizing higher admission standards or the recruitment of students more statistically likely to persist to graduation, performance funding might hurt prospective students from marginalized backgrounds, and harm institutions who work to serve these individuals (like historically black colleges in the USA). In this instance, performance funding cuts against broader access to higher education, while penalizing universities who seek to enroll students from under-represented groups.

It is also important to realize that performance funding systems are very complex and resource intensive. This is particularly true when it comes to distributing funding according to student learning outcomes, and especially so when they include an attempt to measure outcomes at a system level. Consider the OECD's *Assessment of Higher Education Learning Outcomes* (AHELO) project. The AHELO instrument is intended to test learning outcomes in a way that is not only comparable within a jurisdiction, but also across jurisdictions. It has taken years to develop, and cost an estimated \$13

million. Even with this outlay of time and treasure, the instrument faces an uncertain future. The Government of the United Kingdom has already indicated that it will not participate. The American Council of Education (representing 1,700 higher education institutions) and Universities Canada recently authored a joint letter expressing serious concerns over the project and criticism for its high cost. Many expect that the OECD will be forced to abandon the project.

This demonstrates that it is difficult, if not impossible, to identify metrics or indicators that reflect the breadth and depth of quality learning and education. Consequently, efforts to assess institutional performance often result in the use of the most accessible measurement criteria at the expense of truly capturing quality. Quality then becomes defined as what can be measured, not what a student actually needs to be successful. Defaulting to insufficient proxy measures will ultimately do little to improve learning outcomes, while unfairly punishing institutions in the meantime.

Take, for example, the recent shift in focus towards labour market outcomes as a benchmark for the value of a university education. While university graduates continue to perform well in terms of higher earnings and employment rates, narratives around labour market preparedness as the sole objective of a university education are deeply distorting. To the extent that university graduates have struggled to find employment in recent years, this is because the Ontario economy has failed to bounce back from the 2008 recession, not because universities do not provide a quality education. Broader economic factors are largely outside of the control of individual universities and are therefore not a fair measure of their performance or the quality of education they are offering. A narrow focus on labour market outcomes can also obscure and devalue the many other social and civic benefits that Ontario's universities provide. Here is the harmful performance funding cycle in full: the sector defaults to an inadequate proxy measure; universities are unfairly deemed to be under-performing according to this metric; important social and civic goals are distorted; and no meaningful information on university performance has been produced.

Designing the measurement tools that would allow a performance funding system to even function is therefore neither easy nor cheap. For governments concerned about reducing or eliminating budget deficits, the money it would take to build a performance funding system – with no guarantee of beneficial results – could be better spent on making actual investments in teaching and research.

Taken together, existing research does not make a compelling case for performance funding. Indeed, it does not make much of a case at all. The lack of evidence demonstrating any clear positive effects, and the growing body of scholarship raising serious concerns with this model – should give policymakers pause before introducing such a scheme in Ontario. There are certainly more effective – and less risky – ways of improving accountability and responsiveness in the university sector.

Working against continuous improvement

Performance funding contains an obvious logical flaw, one that is enthusiastically overlooked by its proponents. Higher education is a resource-intensive enterprise. In order to support quality teaching and research, universities must have adequate funding. At its heart, performance funding proposes to improve quality by taking funding away from struggling institutions precisely when they need it most.

Performance funding by both institutional targets and competitive targets have the potential to remove significant amounts of public funding from Ontario's university sector.

Advocates for performance funding counter this charge by claiming that performance funding only uses the *threat* of funding reductions to incentivize desired institutional behavior. In the first place, any funding system that relies on threats and coercion by government is somewhat at odds with the values of a democratic society. Moreover, any system premised on reward and punishment must necessarily produce winners and losers – that is, the model is meaningless unless some institutions are actually punished. The potential for funding reduction exists in the institutional targets model, but is more or less assured in the competitive targets model. This is the model currently being advocated by HEQCO. Institutions that do well will receive more funding. Institutions that do not meet their targets – even if the reasons for this are beyond their control – will get less funding. This cuts against the principles of equity and cooperation that have underpinned decades of success in Ontario's university sector.

The reality is that performance funding has the potential to harm students. Despite the rhetoric of performance funding advocates, students do not make choices to attend university based on careful consideration of performance data. Many choose to attend a school because it hosts their program of choice. Others choose the university in their home community because they cannot afford to study away from home or have family commitments that make it difficult to leave. Most students cannot pack up and move if their institution loses funding because it failed to meet a performance target. Instead, they will suffer from the compromised educational quality that results when universities lose resources. This is not fair, and it is certainly not an equitable way to design a funding formula.

In order to foster a culture of continuous improvement in Ontario's universities, the government must provide stable, long-term, and adequate funding. It is of course important to consider important indicators of student success and institutional health. Where problems are identified, the government must work with institutions to ensure a positive outcome that serves students. This approach is more in keeping with the government's vision of stewardship than the coercive reality implied by performance funding.

Contradicting important principles

At the outset of the University Funding Formula Review, OCUFA articulated a series of principles that must be embodied in any funding policy. Performance funding violates many of the most important values:

- *Adequacy*: By introducing the possibility of funding reductions, performance funding works against the principle that universities should receive enough public funding to support their core missions of teaching and research.
- *Student-centred*: Funding cuts due to under-performance ultimately hurt students. Performance funding revolves around metrics, not student needs.
- *Stable and predictable*: The possibility of sudden funding cuts inherent in performance funding is by definition unstable and unpredictable. This undermines effective institutional planning.

- *Equitable*: By creating a system of winners and losers, performance funding seriously undermines the commitment to equitable distribution of funds that has served Ontario's universities very well.

Performance funding also works against the principles outlined in MTCU's *University Funding Model Reform Consultation Paper*:

- *Addressing financial sustainability and ensuring the long-term sustainability of the postsecondary education sector*: Any funding system that operates by inflicting periodic financial shocks, separating institutions into financial winners and losers, and undermining stability and predictability cannot be seen as a measure that serves financial sustainability, in either the short or long term.
- *Supporting the existing differentiation process*: Recent research suggests that performance funding actually encourages universities to be more alike rather than more differentiated. Considering the Australian example of performance measures geared to research output, Peter Woelert (2015) argues that "from a certain point on, an emphasis on performance-based funding mechanisms in the governance of universities may, above anything else, promote and reward conformance within the university sector." Using a limited number of system-wide performance measures to distribute funding encourages universities to "vertically adapt" by replicating the performance criteria at all levels of the university. This loss of diversity in institutional governance leads to a loss of diversity among institutions, what Woelert calls "coercive isomorphism." Such an outcome would contradict the Government of Ontario's stated policy goals in the university sector.

MTCU's *Consultation Paper* also identifies "enhancing quality and improving the overall student experience" and "increasing transparency and accountability" as key principles for a new funding formula. As demonstrated above, there is no evidence that performance funding would advance either of these objectives.

Overall, it is clear that performance funding is the wrong fit for Ontario. There is no evidence to show that it works, and there is growing research demonstrating its deleterious effects. It sidesteps the importance of adequate funding, and by introducing the possibility of funding cuts undermines continuous improvement in the university sector. Performance funding also contradicts key principles that OCUFA and the Government of Ontario have stated should guide university funding. OCUFA therefore urges the University Funding Formula Review to reject performance funding in their ultimate proposal for an updated university funding model in Ontario.

Nothing in the foregoing should be construed as an argument against measurement or collecting better data in Ontario's university sector. Rather, OCUFA believes that such measurement and data not be used to undercut the financial stability of universities and unfairly punish students. Professors and academic librarians across Ontario believe that continuous improvement and meaningful dialogue beneficial to Ontario's universities and university students depends on a new higher education data system. We will outline this data system in the next section.

Recommendation Three: Ontario should create a new higher education data system that encourages transparency, accountability, and continuous improvement

The availability of comprehensive and accessible data is crucial to the higher education sector's ability to engage in well-informed policy discussions and decision-making processes. An improved data environment would support the work of sector stakeholders towards ongoing improvements at Ontario's universities. OCUFA supports efforts to build a more robust data system for the postsecondary education sector as part of the funding model review.

Transparency and accountability is best served by making data available, not punishing institutions

OCUFA believes that the release of useful public data by universities should be an expectation of receiving public funding. We also believe that better and more meaningful data reporting increases transparency and accountability, while fueling a collaborative process of quality improvement. More and better data achieves many of the goals laid out by government as part of the University Funding Formula Review. With a new data system in place, there is no need to gamble with unproven and potentially harmful policies like performance funding.

There is now widespread agreement that higher education institutions must make more and better data about their internal operations, processes, practices and arrangements more readily available not only to government, but also to other sector stakeholders and to the public. The government has an important facilitative role to play by ensuring that universities meet their data reporting requirements, and providing the structures and resources necessary to make this data publicly accessible. The availability of better data is about more than transparency for its own sake – it provides the foundation for a healthy and thriving postsecondary education sector in which all stakeholders can participate in well-informed, evidence-based policy discussions about the future of the sector.

The current data environment

The current postsecondary data environment does not support the ongoing, open and collaborative dialogue that Ontario needs to sustain continued improvement in the university sector. There are two key data shortcomings that OCUFA believes are impairing greater transparency and accountability.

First, substantial data relating to postsecondary education are already collected, but these data could be made more accessible and comparable. Two key sets of data are currently collected – Common University Data Ontario (CUDO) and data collected by the Council of Ontario Finance Officers (COFO). CUDO data tracks basic descriptive statistics on applications and enrolments, institution-level faculty counts, student experience measures, graduation rates, and graduate employment rates. COFO tracks key financial data, including funding sources and areas of expenditure.

Both the CUDO and COFO data can be accessed in a static format by the public, but the tables are cumbersome and users must know exactly what they are looking for and wade through multiple layers of criteria selection in order to produce a useful or usable dataset. More detailed and/or customized reporting is available through COFO, but only by request. Most sector stakeholders, and specialists within MTCU, have become adept at navigating these data sources. But for individuals or organizations without long experience in the sector, this data remains opaque. For the general public, this data is in too raw a format to be useful. There is a need for impartial analysis to tease out trends and observations useful in the ongoing public dialogue around higher education.

Beyond these problems with existing data there are significant gaps when it comes to the data currently being collected and published. Systemic, sector-wide data are not being collected or reported on important and emerging areas of concern. For example, more fine-grained Human Resource data that track the numbers of faculty and hiring patterns by rank and/or department, or the demographic characteristics of academic and other staff are not collected in a uniform, system-wide, and publicly available format. The availability of data of this kind is necessary for the sector to engage in robust and well-informed policy discussions, both within the sector and with government.

The growing ranks of precariously employed contract faculty in Ontario's universities is one emerging area of concern in the university sector about which there is a lack of consistent, system-wide data being collected. Even the most basic of questions about contract faculty at Ontario's universities are impossible to answer because there is no consistent data collection and reporting across institutions. How many contract faculty work at each institution and across the province? What is their demographic profile? How much undergraduate teaching are they responsible for? As of now, we simply do not know. The lack of consistent and comprehensive data on contract faculty is a barrier to assessing the effects the growing use of contract faculty is having on Ontario's universities, let alone begin to consider what solutions or employment arrangements might be most appropriate and beneficial for the sector. This is one example, among many emerging issues, that are difficult to address due to a lack of useful data.

The need for a coherent data system

To address the inadequate format of available data and the lack of system-wide data on important emerging issues, the government must take decisive steps to require that universities collect and report a prescribed suite of data every year, and that this data be presented in an accessible and comparable format. The exact kinds of data to be collected should be negotiated between stakeholders, institutions, and government. OCUFA is working with its member associations to identify current gaps in available data on hiring patterns and contract faculty, as well as to identify data points that should be collected and reported.

Student groups will no doubt have their own specific data needs, as will other stakeholders and the population at large. The immediate task is twofold. We must establish the range of data that needs to be collected and reported in order to satisfy current data needs. But we must also create an accessible, comprehensible, and responsive data system. A key feature of this system would be the ability for stakeholders to continuously refine, change, or expand the data collected, since the sector's data needs

may change over time. Once the system is in place, it will be possible to collect, analyze, revise, and enhance data on Ontario's universities, in order to ensure that the needs of students, faculty, administrators, and citizens are well served.

To help administer this new, more functional data system, the provincial government should consider the establishment of a higher education data organization that acts as a central clearinghouse for all data that are collected and reported about the sector. This data organization would be responsible for collecting, compiling, and making comparable a robust program of data covering a comprehensive range of sector characteristics. This organization could be housed within the Ministry of Training, Colleges and Universities, or could operate as an arm's length agency, modelled after the United Kingdom's Higher Education Statistics Agency (HESA) or the National Center for Education Statistics in the United States. An Ontario higher education data organization should replace HEQCO, which currently lacks the mandate, expertise, and support of stakeholders to play a neutral data facilitation role. A new higher education data agency should be guided by a representative body where all stakeholders have a voice and a vote in determining current and future data requirements. A new data agency could also provide neutral analysis of the sector's key characteristics, including accessibility, faculty complement, and graduate outcomes.

DRAFT

The measured and responsible approach

In recent policy statements, the Government of Ontario has described itself as the steward of the province's higher education system. A key part of any steward's role is that of *protection*. This means promoting improvement and development, while insulating universities from harmful trends and policies.

The government's stewardship of universities is powerfully embodied in the university funding formula. Through this formula, the Government of Ontario can bolster the things that work well in our universities, chart a collaborative course for positive change, and resist the harmful policy proposals or ideas.

OCUFA has suggested in this submission that the current student-centred nature of the existing funding formula should be retained in an updated form, with greater consideration of the unique needs of universities with special missions and that serve distinct populations. We have also pointed to the total lack of evidence supporting the adoption of so-called performance funding, and the potential harmful effects such policies could have on our universities. We conclude by arguing that a new higher education data system in Ontario would best fulfill the government's desire for greater transparency, accountability, and quality.

While we have welcomed the University Funding Formula Review, it is important to recognize its limitations. A complete discussion of university finances would involve a consideration of the level of public funding provided to Ontario's universities, as well as the level of tuition fees. We believe that the former is too low, and the latter is too high. Changes to the funding formula that are currently being considered as part of the review process will unfortunately not address either of these concerns.

OCUFA fundamentally disagrees with the notion that improvements to quality can somehow be made in the absence of new government funding. This idea is problematic for three reasons: it ignores the transformative role that public investment has played in creating the current system; it posits fiscal constraint as an immutable fact, rather than the result of political choices; and it provides a convenient and dangerous opening for those offering false-hope alternatives. OCUFA will continue to argue that the *only* way to ensure quality and accessibility is sustained and robust public investment. Anything else is just working at the margins.

Stewardship requires more than working at the edges. It requires commitment to the principles that have made our universities great. It requires commitment to providing universities with the resources they need, without imposing undue hardship on students and families. It also requires listening to those who study and work within Ontario's universities, who best understand the daily realities and needs of high quality education. OCUFA looks forward to working with the Government of Ontario through the resolution of the funding formula review process and beyond to make our universities truly great.

References

- Dougherty, K.J., Jones, S.M., Lahr, H., Natow, R.S., Pheatt, L., & Reddy, V. (2014). Implementing Performance Funding in Three Leading States: Instruments, Outcomes, Obstacles, and Unintended Impacts [CCRC Working Paper No. 74]. New York: Community College Research Center, Teachers College, Columbia University.
- Hillman, N.W. & Tandberg, D.A. (2013). State Performance Funding for Higher Education: Silver Bullet or Red Herring? [WISCAPE POLICY BRIEF] Madison: University of Wisconsin-Madison, Wisconsin Center for the Advancement of Higher Education [WISCAPE].
- Hillman, N.W., Tandberg, D.A., & Fryar, A.H. (2015). Evaluating the Impacts of “New” Performance Funding in Higher Education. *Educational Evaluation and Policy Analysis*, January 13, 2015.
- Neave, G. (2012). The Evaluative State, Institutional Autonomy and Re-engineering Higher Education in Western Europe: The Prince and His Pleasure. New York: Palgrave Macmillan.
- Rutherford, A. & Robovsky, T. (2014). Evaluating Impacts of Performance Funding Policies on Student Outcomes in Higher Education. *The Annals of the American Academy of Political and Social Science*, 655(1). Pg. 185-208.
- Woelert, P. (2015). From performance to conformance: The ‘coercive’ effect of performance-based governance systems. Higher Education Development Association. <http://uv-net.uio.no/wpmu/hedda/2015/07/02/guest-blogger-from-performance-to-conformance-the-coercive-effect-of-performance-based-governance-systems/> Accessed August 21, 2015.
- Ziskin, M. B., Hossler, D., Rouborn, K., Cekic, O., & Hwang, Y. (2014). Outcomes-Based Funding: Current Status, Promising Practices and Emerging Trends. Toronto: Higher Education Quality Council of Ontario.