

## COU Submission to the Blue-Ribbon Panel Consultations on Financial Sustainability in the Postsecondary Education Sector

On behalf of Ontario's universities, the Council of Ontario Universities (COU) is pleased to provide the Panel with input on the six questions posed by the provincial government.

### 1. MCU Funding and Student Success

Ontario universities play a crucial role in society by developing the skilled talent the province desperately needs, fostering the research and innovation needed to fuel productivity and economic growth, and supporting local economic development in communities throughout the province. Investing in Ontario universities is investing in economic growth and prosperity.

Universities continue to transform programming to respond to labour market demand. Since 2010, [university enrolment](#) has increased by 68% in science, technology, engineering and mathematics (STEM) programs and by 38% in health programs. Additionally, universities are rapidly expanding micro-credential programming to reskill and upskill Ontario's workforce and have established more than 660 agreements with industry associations to support their workforce needs.

Universities also continue to adjust student supports and programming to help develop highly skilled and resilient graduates that meet Ontario's changing labour market needs. According to the latest MCU [graduate survey results](#), university graduates have a high employment rate of 90.4% six months after graduation, increasing to 94.3% two years after graduation. Almost 90 percent of graduates employed considered their work closely or somewhat related to the skills developed at university.

Leveraging the strengths of the **entire postsecondary education sector** is critical to meeting Ontario's labour market needs. Colleges, Indigenous Institutes and universities all play a critical role. Building on their respective strengths will help ensure all players are delivering on their mandates. For example, given the shortage in the skilled trades, colleges have an important role to play in enhancing their programming to deliver on this critical mission. Redoubling college efforts in this area would help address the shortage in skilled trades and apprenticeships.

Over the past several years, universities have weathered declining provincial operating grants and a cut and freeze to domestic tuition, which have become increasingly untenable.

- Provincial operating funding has not kept pace with inflation, enrolment growth or increasing supports that universities provide to students. In addition, operating funding is being further eroded by the provincially imposed international student recovery fee. As a result, real [provincial operating grants per FTE](#) student declined 31% between 2006-07 and 2022-23 and currently represent about 30% of total university operating revenue.
- COU estimates there were more than 21,000 Ontario students (with a value of \$176.5M) in Ontario universities that were not funded through provincial operating grants in 2021-22. The majority of university operating grants are tied to MCU's funding corridor, which caps enrolment growth at a time when we desperately need more skilled talent.
- Growing demand by highly qualified Ontario students to study in the province has led to the growth in unfunded students, especially in STEM programs. The ability to support these students will become more challenging without additional operating and tuition revenue.
- Increasing operating support will also be critical to grow enrolment to meet future labour force needs. The Ministry of Finance's [population projections](#) indicate the number of citizens and permanent residents aged 18 to 24 in Ontario will grow by 7.8% (+87,653 individuals) over the next decade. Creating capacity to accommodate increased enrolment will require planning and preparation now.

Compared to [other provinces](#), [Ontario](#) receives [the lowest per-FTE operating grant funding](#) for universities, with Ontario at \$8,647 and a Canadian average of \$12,215 in 2020-21. Recent provincial budgets across Canada have significantly increased operating funding for universities. In addition, all Canadian provinces **except Ontario** allow for tuition increases.

Ontario's universities would welcome government policy that supports enhanced long-term planning to better meet student and labour market needs. For example:

- COU welcomes recent government investments in high-demand sectors (e.g., health care) to develop the talent Ontario needs. COU would encourage full funding of these programs added to base funding. Building increases into multi-year base funding along with a multi-year tuition policy framework would help facilitate planning to meet labour market demands.
- Unilateral actions to break up institutions has led to greater financial challenges. [Legislation](#) creating two new institutions has reduced economies of scale in Northern institutions, increasing financial sustainability challenges.
- The current collective bargaining environment has become more complex and uncertain due to legislative interventions (e.g., Bill 124). COU supports an environment that facilitates fair and affordable collective agreements that are freely bargained. Universities are actively managing total salary and benefit costs. As noted below, Ontario universities are tied for second-lowest in Canada for total [salary and benefits expenses per student](#).

Operating and tuition revenue play a critical role in supporting **student success** and enhancing **student access** to learning, research and business start-up opportunities, including:

- **Student Disability and Mental Health Supports:** Ontario universities are experiencing increased pressure to meet the growth in demand for students for more services. Overall, in 2021-22, Ontario universities spent [\\$1.4B in total student services and supports](#), an increase of 22% over the past five years. By comparison, in 2021-22, MCU provided \$9.5M for mental health and \$35M for disabilities supports for students at Ontario universities.
- **Student Housing Supports:** Ontario universities further support students with residential housing options and assistance in finding off-campus housing. In 2022-23 Ontario universities provided over 59,600 residence spaces for students. An additional 9,000 spaces are projected to be added in the next five years. No government funding is currently provided to support the construction of student housing.
- **Facilities Renewal Program (FRP) and Deferred Maintenance Backlog:** Universities are adapting their physical spaces to improve the student experience, energy efficiency, and to create collaborative, technology-enabled spaces that help students learn on campus and on-line. Institutions' capacity to repair, renew and transform their facilities is limited due to a growing backlog in deferred maintenance of over \$4.6B as of 2021. In 2020-21, universities contributed more than \$247M to FRP-eligible projects that helped upgrade learning environments and address the backlog of deferred maintenance – compared with the \$81M provided by government through the FRP.
- **Research and Innovation** are critical to Ontario's prosperity. At the same time, [provincial support for research](#) declined in real terms by 52% between 2010-11 and 2021-22. [Compared to other provinces](#), in 2020-21, Ontario's share of total research funding from provincial sources was 7% compared to 16% in Alberta and 22% in Quebec. Ontario invests [\\$495 per student FTE in research](#), compared to the national average of \$992. Provincial research funding also leverages federal funding for the benefit of Ontario. Investing in research and innovation, including the matching of federal funding, is critical to Ontario's economic growth and future prosperity.
- **Technology Transfer Offices (TTOs)** play a critical role in the commercialization of innovation and job creation. Ontario universities are working collaboratively with **Intellectual Property Ontario** to accelerate the commercialization of new ideas and help attract private

sector capital to help fund start-ups. However, universities must use own-sourced revenues to fund TTOs. Declining funding and the cut and freeze to tuition are placing greater limitations on the ability of universities to commercialize new ideas.

Strong financial management requires planning for **future liabilities and risks**. Accordingly, universities routinely establish reserves to meet future obligations and protect against unforeseen events and one-time or unexpected operational costs. The sector has total future commitments and obligations of more than \$12.5B as of 2021– including a \$4.6B deferred maintenance liability – and, as such, is facing a **total shortfall of about \$5.6B** based on a 2021 MCU survey. Universities also have restricted funds that are required for specific purposes, such as scholarships and research.

Universities are accountable to the communities they serve and to government for the use of taxpayer funds. As part of this commitment, universities are accountable through their **Strategic Mandate Agreements** and **performance-based funding** and will continue to collaborate with the province on how best to achieve enhanced outcomes.

***Recommendation: Increase Base Operating Funding***

To sustain current capacity and support enrolment growth, universities are seeking:

- a one-time increase to base funding to reduce the decline in real per-student grants;
- ongoing annual percentage-based increases in base funding to reflect the higher costs of meeting student needs; and
- full funding for enrolment expansion to develop the talent Ontario's economy needs.

## **2. Sound Financial Health Practices and Continuous Improvement**

As autonomous institutions, Ontario universities are committed to strong fiscal management, good governance, transparency and accountability to students and the communities we serve.

Ontario's Auditor General raised a number of important issues in its four-university audit released in November 2022. While COU welcomes the Auditor General's comments to further enhance financial oversight, COU strongly opposes the Auditor General's recommendations to give the province authority to appoint a supervisor or to impose financial limits.

Excellence in university leadership is essential and enables strong Board governance and financial management and oversight. Clear financial metrics and action plans will build on the strengths of a globally recognized sector that delivers highly skilled talent and cutting-edge research and innovation.

For this reason, universities have identified [Leading Practices in University Board Governance](#), which emphasize the accountability of university boards for the financial sustainability and effectiveness of their institutions. These Leading Practices affirm that all universities' voluntary boards support and adhere to strong governance practices, take seriously their fiduciary responsibilities, and are committed to continuous improvement in governance practices.

Universities also proactively developed a [Financial Health and Transparency Framework](#) to provide ongoing monitoring of their financial position and to ensure action plans are developed and implemented as required. COU's framework outlines the following actions:

1. **Report annually on five core financial metrics** (net income/loss ratio; primary reserve ratio; interest burden ratio; viability ratio and net operating revenues ratio). These ratios reflect cash levels/liquidity, revenue and expense management, financial strength and flexibility, and debt management and affordability. In addition to the five core indicators, universities that carry external debt commit to third-party credit rating reviews.
2. **Set appropriate minimum thresholds** for the five financial health indicators and confirm the key indicators that would drive financial health actions.

3. **Take appropriate action**, in response to performance against the minimum thresholds and external credit ratings, to proactively mitigate emerging financial risks.
4. **Continue providing sector leadership** in transparency by ensuring financial metrics and other financial information, including operating budgets and credit rating reviews, are publicly available on websites.

This commitment to sound financial practices is yielding tangible results. Institutions have strived to minimize operational costs and find additional efficiencies. For example, [salary and benefit costs](#) per FTE at Ontario universities (\$15,256) are tied for the second lowest in Canada – well behind typical comparators to Ontario, such as Quebec (\$16,045), Saskatchewan (\$17,652) and British Columbia (\$19,628).

Since COU published its Financial Health and Transparency Framework last year, MCU has announced its University Financial Accountability Framework, which builds on COU's proposal. COU is committed to working with the Ministry in the development and implementation of its framework.

Ontario universities have implemented innovative ways to [drive greater efficiencies and cost savings](#), including:

- The [Ontario Universities' Application Centre](#) removes the need for each institution to process its own applications, eliminates duplication of work, and saves students time and money.
- Through a partnership with Ontario universities, international students have access to a sector-wide **University Health Insurance Plan**.
- Through the [Centre for Innovation in Campus Mental Health](#), universities have partnered with colleges and students to create a centralized resource for frontline service providers that streamlines the sharing of mental health education and resources.
- Universities work with the [Ontario Education Collaborative Marketplace](#) to take advantage of savings through joint purchasing agreements. Numerous other **collaborative purchasing arrangements** are in place locally, regionally and provincially (e.g., school boards, hospitals, government).
- The [University Pension Plan](#) (UPP) protects the security and sustainability of pensions in the sector through a Jointly Sponsored Pension Plan model. The UPP currently manages \$11.8B in pension assets across 16 participating organizations.
- [MyCreds](#) is a digital credential wallet that facilitates secure issuance and verification of official digital documents, creating efficiencies through a shared service model.

In addition to ongoing efforts by individual institutions, universities continue to collaborate to transform and pursue sector-wide initiatives in driving further efficiencies, including:

- COU's **Task Force on University Space Transformation** has commissioned a space-standards review that will help build universities of – and for – the future by examining current space standards and identifying additional efficiencies.
- Universities are working with Supply Ontario, the Ontario Education Collaborative Market Place and eCampus Ontario to identify and implement opportunities for **collaborative procurement** to increase value and lower procurement costs. Discussions include the joint procurement of additional IT solutions.
- In 2022, the Canadian Association of University Business Officers launched the [National Benefits Consortium](#) to bring together 20 institutions from across the country, close to 100,000 plan member lives and more than 135 benefits plans, to form two benefits programs with Green Shield Canada and Manulife. This has resulted in economies of scale that institutions could not have achieved independently.

- COU also has working groups that continue to pursue innovative ways to direct more resources to frontline services to enhance student success. However, given declining operating grants and the cut and freeze to tuition, creating financial room for significant upfront investments is increasingly becoming a challenge.

### 3. Multi-Year Tuition Flexibility

Ontario universities require multi-year tuition flexibility, coupled with enhanced student financial supports, so they can continue to meet demand for skilled talent while assisting low- and middle-income students.

In 2019, the provincial government implemented a 10% cut to tuition for all domestic students and a four-year tuition freeze (except out-of-province domestic students as of 2022-23).

- This cut has since cost the sector [\\$1.9B in foregone revenue](#) to-date and an additional \$997M in 2023-24.
- [In real terms](#), domestic tuition has declined by over 15% since 2019, from \$4.3B in 2018-19 to \$3.8B in 2021-22. Even if there was an increase in tuition levels of 5%, Ontario students would pay more than [10% less](#) in real terms [compared to 2018-19](#).

Tuition flexibility, with increased financial supports, can help support access for low- and middle-income students. For example, universities have increased their investments in [student financial aid](#) from \$704 million in 2010-11 to **\$1.3 billion in 2021-22**. Overall, Ontario universities invested more in student financial aid than **total OSAP funding** (\$954M for universities, colleges and private career colleges) in 2021-22.

- This financial aid provides critical support to low- and middle-income students. Net tuition studies for Ontario university students show positive results, particularly those from low- and middle-income families. For example, a [study commissioned by COU](#) estimates that a 5% tuition increase (\$309) would result in an additional \$123 tuition expense ('net tuition') for an undergraduate science student living away from home, with \$80K parental income. A student with parental income less than \$50,000 would see zero increase.
- Ontario universities' commitment to student success has resulted in lower costs to government with [OSAP default rates](#) for university graduates at 2.7% in 2020, compared to colleges at 7.2% and private career colleges at 7.4%.

#### ***Recommendation: Multi-Year Tuition Flexibility and Enhanced Student Aid***

- Allow multi-year tuition flexibility, including corresponding increases to Tuition Set Aside (TSA) and Student Access Guarantee (SAG) to help support low- and middle-income students, that provides predictable and necessary revenues to ensure universities can deliver on their mandates to develop highly skilled talent, foster research and innovation, and support local economic development.

### 4. Unique Needs of Northern Universities

Northern institutions face unique challenges due to demographic and locational circumstances. The province needs to recognize these costs under special purpose grants, such as the Northern Grant.

Government intervention to create smaller Northern universities has impacted all Northern universities placing them in greater financial hardship. Further fragmentation would undermine the financial health of these institutions, which play an important role in Ontario's differentiated system and in Northern communities.

COU encourages the province to work directly with Northern institutions to ensure they have the necessary resources in support of a financially sustainable made-in-the-North solution.

## 5. Unique Needs of French Language Education

All students, regardless of official language, should have access to quality academic programs and experiences necessary to develop linguistically diverse and highly skilled talent to meet Ontario's needs. Francophone and bilingual programming in a minority-language context entails additional costs, and dedicated funding for this population has not increased since 2005.

COU encourages the government to work with bilingual / French-language universities to address these financial challenges to help ensure access to quality French-language programs within an innovative and financially sustainable French language postsecondary system.

## 6. Supporting International Students

The [number of international students](#) enrolled in Ontario universities grew from 43,346 in 2012-13 to 105,244 in 2022-23 – more than a 140% increase. International students contribute to the communities in which they reside and help address demand for talent and workforce shortages in Ontario. To help further support the success of international students, Ontario universities have committed to [Leading Practices in International Student Experience](#) including in areas of recruitment, admission, tuition/costs and wraparound supports.

Increasingly, [international students also contribute to the financial sustainability of institutions](#). In 2010-11, tuition from international students represented 7% of total operating revenues; by 2021-22, this revenue stream accounted for 28% of total operating revenue. However, increasing reliance on international students poses significantly higher risks for the sector.

- For example, inordinate delays in federal processing of international student visa applications in 2022-23 resulted in a \$100.9M decline in university revenues. Additional impacts are projected for future years.
- To help reward excellence, COU has endorsed Universities Canada's proposed "trusted institution" model for the federal government to expedite visa processing and reduce the financial and reputational impact of these processing delays. This model gives visa application processing preference to institutions with higher visa approval and completion rates.

Increasing operating grants and tuition revenue for domestic students would help mitigate these growing risks.

Quality programming is foundational to producing the talent Ontario needs. Recent reports about the treatment of international students by private colleges raises serious concerns about student welfare and undermines Ontario's attractiveness to international students. Private institutions must adopt on-going quality assurance programs to provide better value-for money for their students.