

Intelligence MEMOS



From: Alex Usher
To: Ross Romano, Ontario Minister of Training, Colleges and Universities
Date: October 3, 2019
Re: **LESSONS FOR ONTARIO IN PERFORMANCE-BASED FUNDING MODELS**

Over the past two decades, one of the biggest trends in public funding of higher education, worldwide, has been to tie a greater percentage of institutional funding to outputs or outcomes in performance-based funding (PBF) systems.

In most cases, PBF is an add-on to a public-funding system that is primarily enrolment-based. It usually represents only a small portion of government funding and – in countries with tuition fees – an even smaller percentage of total funding.

Still, with institutions around the world feeling a constant funding pressure, the logic behind PBF insists that governments can drive significant change by getting higher-education institutions to compete for relatively small amounts of money.

Canada has largely sidestepped this debate, but last April the Ontario government announced a radical plan to make 60 percent of its transfers to universities and colleges based on a set of 10 “performance indicators” related to each institution’s learner outcomes and economic impacts.

This is an enormous shift in public policy, which potentially affects more than \$2 billion of public investments, and could set the stage for a wider reconsideration of post-secondary funding across Canada.

My new C.D. Howe Institute [paper](#) reviews the various ways that PBF works in other nations and provides some analysis of Ontario’s plans, to the extent we know them.

PBF is neither a flash in the pan, nor some kind of radical ideological tool. It is a mainstream policy instrument in use in places as disparate as Finland and Tennessee. There is a great deal of variation in detail – notably what is being incentivized and the size of the incentive. It is difficult to make clear-cut statements about the superiority of PBF over other funding systems, but it does seem that government goal-setting can help institutions focus on specific issues.

The PBF system announced in bare outline by Ontario is consistent with some but not all of the international lessons. The proposal respects the lesson that incentives need to be large in order to affect institutional behaviour and it recognizes that incentives need to be tailored, at least to some extent, to individual institutions.

On the other hand, it ignores lessons about transparency in the development of 14 indicators and in using indicators that are meaningful measures of performance (the “community impact” indicator is a particularly flagrant offence).

Most intriguingly, it proposes to look not just at credentials awarded but also at gains in learning/knowledge.

The proposal is ambitious and even audacious, even if the skills piece may need a little more work. That said, there are several questions that surround what we know about the proposed implementation.

First, the preference for a contract-based PBF rather than an envelope-based system raises serious concerns that this is less a performance measure than a stealth cut to institutional grants. It appears that a school will have to meet 100 percent of every indicator to get full funding. The province needs to clarify this point very quickly – the project’s legitimacy depends on encouraging performance rather than disguising austerity.

Moving to an envelope-based system where the entire envelope gets spent on post-secondary education, one way or the other, which is the global standard, would be the most efficient way to ensure that money budgeted for post-secondary institutions actually ends up benefitting post-secondary institutions.

Second, some of the indicators are badly constructed and may function as the very opposite of a performance measure. Inclusion of such measures weakens the perception that the scheme is, in fact, meant to encourage performance.

Third, none of the chosen performance indicators reward efforts to expand access. In fact, given the incentive to achieve high completion rates, one might reasonably worry that there will be a bias against widening access to underserved groups, who may be seen as a dropout risk.

Perhaps the most worrying aspect of the current plan is its secrecy. The budget announcement contained few details, and the only subsequent information that has come forward has emerged from private government briefings to institutions – public follow-up has been non-existent.

Public policy suffers when it is developed in the dark; greater transparency in the development of a policy governing more than \$2 billion in public funds is a must.

That said, the principles underlying PBF systems are good ones. It is right and proper for governments to set some goals for post-secondary institutions, while permitting autonomous institutions to decide how to meet these goals.

The government’s challenge now is to change its rough ideas into workable policy that, through careful measurement of matters that are actually under institutional control, truly rewards those institutions that are meeting public needs. If it succeeds, the idea could revolutionize higher education funding throughout Canada.

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