



ACIFA'S POSITION ON: THE FUNDING MODEL TO POST SECONDARY EDUCATIONAL INSTITUTIONS

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OVERVIEW:

Funding is critically important for the continued success of Alberta's post-secondary institutions.

The goal of any funding review should not be to lower financial support to post-secondary education, but rather to support continued excellence in teaching and scholarly activity. Any review should not only focus on the distribution of existing resources amongst institutions, but also ask if current funding levels to post-secondary education (PSE) are adequate given the tremendous benefits a well-functioning PSE system provides to a society.

The funding of our post-secondary institutions should strike an appropriate balance between the tangible benefits to Albertan society and the benefits to the individuals successful in their post-secondary pursuits. Because the benefits of PSE are both individual and collective, an appropriate balance must be found between individual student contributions (tuition fees) and taxpayers' contributions.

PRINCIPLES TO GUIDE THE FUNDING MODEL:

- Funding to post-secondary is an investment, not a merely an expense. There is overwhelming evidence that spending on PSE generates higher rates of return to society than resources dedicated to almost any other public service. Christophersen and Robison (2003)
- Funding levels should be sufficient to maintain, strengthen and protect the core mandates of PSE institutions.
- Funding levels should be stable and predictable to allow for optimal functioning and planning at PSE institutions. The recent practice of increasing operating grants by 2% per year (appreciated as that was given the resource pressure the provincial government was under) is barely sufficient to compensate for inflationary pressure.
- Funding should not be punitive but should focus on the long-range health of a balanced society. Allocating resources efficiently cannot mean that post-secondary institutions face the continuous threat of losing funding. Especially when they were unable to meet annual performance targets due to circumstances beyond their control.



- Funding should be fair and equitable and should consider the impact that post-secondary institutions have on their community.
- Alignment of funding to core mandates will help protect the diversity in our post-secondary education system in Alberta and prevent mandate drift.
- The allocation of resources among institutions should guard against the development of wide variation of quality across the system.
- Funding levels should be sufficient to prevent continued casualization of academic work.
- Should the funding formula for the PSE system in Alberta be amended, it should be simple to understand and administer. A funding formula should add to transparency and should not be one that can be easily “manipulated”.

AN INVESTMENT RATHER THAN AN EXPENSE

It is necessary to weigh the benefit and “return on investment” that post-secondary education brings to Alberta’s society and economy. Spending on PSE leads to a higher return on investment than spending on almost any other activity the government funds.

In their wide-ranging study of the social-economic benefits generated by 16 community colleges and technical institutes in Alberta, Christophersen and Robison (2003) came to the conclusion that the benefits are both private and public. The private benefits to the individual student are well known – a more rewarding career and a generally higher earning capacity. The public benefits, captured by society at large, stem from savings (or avoided costs) associated with improved health and lifestyle habits, lower crime rates, and lower incidence of social assistance and unemployment – all of which are associated with higher education of the individual.

In addition to the benefits mentioned above, there are also significant non-material benefits that a well-functioning post-secondary education system brings to Alberta’s society such as diverse arts and cultural activities that enrich the quality of life. As well, post-secondary education cultivates the creativity necessary to address our social, technological and environmental issues through science, technologies and business ventures. However, the bulk of these benefits only manifest themselves over the longer term, as the effects of higher education accumulate over the lifespan of its recipients, while the cost of PSE must be incurred in the present. Therefore, funding to PSE institutions should be sufficient not only to ensure immediate operating needs are met, but should also be sufficient to respond to changing societal demands. The PSE sector plays a central and irreplaceable role in equipping the labour force with the skills necessary to support and strengthen the economy. It is therefore shortsighted financial management to reduce spending on PSE which contributes to society’s long-term well-being in such diverse ways.



GOALS OF ACCESSIBILITY, AFFORDABILITY AND QUALITY

ACIFA appreciates and supports goals toward accessibility, affordability and quality PSE. In order to achieve them, however, all three goals of accessibility, affordability and quality should be realized simultaneously. For example, if affordability (through tuition freezes) is achieved at the expense of educational quality (such as program cuts and increased class sizes) then the intent of these goals is undermined. To prevent this from happening, PSE institutions should be compensated for funding shortfalls brought about by any tuition freezes.

MINIMIZING DUPLICATION

Even if we use our current resources well, finding efficiencies through the minimizing of duplication within the system can reduce our resource use. The main source of duplication is currently mandate drift: institutions encroaching on each other's mandate. This is possible because under the current funding practice, institutions have the leeway to re-invent themselves and change the roles that they were assigned by the architects of the six sector model. This ability to change mandates has unintentionally led to duplication of functions, services and programs. A great deal of efficiency can be found if institutions fulfill only the roles for which they were designed and deliver only the programs and services set out in their mandates, instead of expanding into each other's territory. This is arguably the main weakness of the current funding model: it has made it possible to inadvertently undermine the structured diversity in our PSE system.

A second major source of efficiency can be found in tying funding to core mandates. The current funding formula enables resources to be drained away from core mandates such as teaching, and instead, funneled into activities that are only peripherally related to the core mandates. Many of these functions are "nice to have," but not essential. Some of the most notable examples include centers of entrepreneurship, centers of excellence or centers of leadership. Too often these take PSE institutions away from their core mandates – something which can perhaps be justified during times of affluence, but during times of scarcity core mandates must take priority.

ADMINISTRATIVE DENSIFICATION

A further drain of resources from core mandates in PSE institutions is the expansion of administrative personnel relative to academic positions. The number of non-teaching positions, such as Associate Deans, Department Heads, and Managers have been expanding at an increasing rate in all of our educational institutions. This syphons funds away from the core functions of education and often does not contribute to betterment of the system's core functioning.



In addition to minimizing duplication due to mandate drift and the diverting of resources into peripheral activities, there are still further efficiencies to be found in administrative as well as academic functions. For example:

Minimizing academic duplication:

- Moving our system from a competitive model to a collaborative one by finding mechanisms that enable institutions to cooperate and find proficiencies where possible.
- Improving the currently used credit transfer system in the province between PSE institutions, even though it is relatively robust.
- Sharing curriculum and programs between institutions, without harming intellectual property.

Minimizing administrative duplication:

- Where partnerships between institutions exist and where partnering institutions agree, combining or centralizing background office services where applicable may lead to greater efficiency.
- Sharing information systems between institutions for various functions such as financial analysis.
- Allowing similar institutions to work together on legislative compliance matters.
- Promoting collaboration between institutions in the same sub-sector to develop guidelines and policy manuals as it pertains to business they have in common.

The Government must also share some responsibility in burdening institutions with excessive and overlapping compliance tasks that only serve to increase administrative costs.

A FUNDING FORMULA

It goes beyond the scope of this submission to suggest a formula which will address the funding issues currently experienced by the PSE sector. Funding currently lacks standardization which leads to inconsistency, inequity and a lack of transparency. However, given the diversity and complexity in this sector, we acknowledge that it might be difficult (even impossible) to standardize funding into a single formula.

Should the government attempt to develop a generally applied funding formula, it is vital that such a formula be robust enough to accommodate the diversity in the sector, yet simple enough to understand and administer.

In other jurisdictions where a funding formula is used to distribute resources in the PSE system, a student-centered approach is followed. In Alberta, it must be recognized that the cost to provide an education differs greatly between urban and rural PSE institutions. Using student enrollment numbers as a basis for resource allocation must take these differences in delivery cost into consideration, as well as the broad



role some institutions play in their local community. Standardizing a funding formula will also require a collaborative data system within higher education that encourages transparency, accountability, and continuous improvement.

OUTCOMES-BASED FUNDING

Extensive international research has been done on outcomes-based funding in higher education. The questions investigated are whether outcomes-based funding is effective in motivating institutions to function more in line with their true mandates, to be more productive, or to be more in tune with labour market needs. There is no lack of data to study – no fewer than 34 States in America have tried performance-based funding in some form or another. The design of these performance-based funding models varies greatly and the percentage of overall funding linked to performance criteria varies between 6 percent of total funding in Indiana, to 80 percent in Tennessee (Dougherty and Reddy, 2013).

An excellent report on this topic was published in 2014 by *The Higher Education Quality Council of Ontario*. Aiming to produce a comprehensive policy-relevant perspective, the authors undertook a systematic review of outcomes-based funding models in the US, Canada, Australia and numerous European countries. At the end of this detailed analysis, they concluded that there is **little evidence that outcomes-based funding can be associated with improved student outcomes**.

Dougherty and Reddy (2013) studied the impact at different time horizons of outcomes-based funding in the various states in America where it is employed, viz. immediate impacts, intermediate outcomes and ultimate outcomes. *Immediate impacts* included institutional leaders' awareness of the policy goals of government and their institution's performance on relevant measurements as well as incorporation of outcomes-based funding requirements into financial decisions and institutional practice. *Intermediate outcomes* included student outcomes such as improved completion rates, retention rates, transfers, credit completion thresholds, and successful completion of remediation. *Ultimate outcomes* included completion of degrees or certificates as well as workforce outcomes.

The authors found that policies appear to be less focused on ultimate outcomes such as graduation and job placements and more focused on intermediate outcomes. They also found evidence that institutional leadership's awareness of their own performance and of the stated goals of higher education was higher in states within the U.S.A., with performance-based funding, in addition to evidence that these policies affected institutions' financial decisions. However, no evidence was found that outcomes-based funding policies affected (or improved) an institutions capacity as learning organizations, or that outcomes-based funding was associated with improved student outcomes in the U.S. context. For Alberta, we believe if funds are allocated based on performance/outcome criteria, it may result in winners and losers among institutions which will negatively impact students who attend "losing" institutions.

It should be noted that outcomes-based funding (called performance envelopes) has been tried in Alberta before and found to be unsustainable (Barnetson and Boberg, 2000). The intent was to provide a



mechanism to award annual performance and introduce mandate-specific indicators, external benchmarks and third-party performance assessments. Performance envelope funding was discounted after only three years because it was found too difficult to administer.

In addition to the lack of evidence that outcomes-based funding achieves any of its intended results, two further, and major, problems can be connected to this funding approach. The first is the funding instability it creates for institutions. The bigger the percentage of an institutions' annual budget which is tied to annual indications of performance (which often fluctuates due to external factors), the greater will be the uncertainty with which institutions must contend annually. This would undoubtedly wreak havoc with the steady functioning necessary for the success of our PSE institutions.

The second major problem with outcomes-based funding is the incentives that it provides for steering in the direction of what is financially rewarded. If pure numerical indicators like enrolment numbers, pass rates, or retentions rates are used as funding parameters, there is little that prevents institutions from seeking "good" performance in these dimensions irrespective of what it does to the quality of its core mandate. Especially in difficult economic conditions, pressure to perform on numerical indicators for the sake of simply surviving, may lead to institutions increasingly "doing what is necessary" and giving less attention as to their specified mandates under the 6-sector model.

CONCLUSION AND RECOMMENDATIONS

1. Recognize and identify the fundamental and long-term contributions that recipients of good post-secondary education make to the prosperity, stability and overall well-being of both themselves and society over both the short and long term. Note that these outcomes are anathema to short-term productivity measures.
2. Revisit the specific mandates of each PSE institute in the province and ensure that diversity in the system is maintained by preventing cross-institutional mandate creep. This should be accomplished in consultation with both the management and the faculty association at each institution.
3. Align funding to the core mandates of PSE institutions but not by conflating this with performance-based or outcomes-based funding.
4. Take due notice of the fundamental need of the PSE sector for stable and predictable funding over the longer-than-annual time horizon for properly delivering its services. This requires a commitment to funding for a three to five year time period and that PSE institutions be spared from annual or other irregular fluctuations in their funding.
5. Recognize the contextual differences between PSE institutions. The role of rural institutes in the broader cultural life of remote communities should be acknowledged, included in their mandates, and funded accordingly. Similarly, acknowledging the enrollment pressure that urban institutions often face should also be recognized and reflected in their funding.



6. If applied research is identified as part of the mandate of a teaching institution, resources for such research should be specifically earmarked for its intended purpose.

Finally, we realize it has been almost two decades since the last funding review was completed in Alberta. While ACIFA appreciates the necessity of funding reviews, we also appreciate the complexity of such an undertaking as well as the long-term consequences for our sector. Given all of the complexities of this funding review and its potential consequences, we encourage the government to proceed cautiously and pursue extensive consultation.

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