

ACIFA's submission on the funding model review

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This document is submitted on behalf of:

- Alberta College of Art & Design Faculty Association
- Grande Prairie Regional College Academic Staff Association
- Grant MacEwan University Faculty Association
- Keyano College Faculty Association
- Lakeland College Faculty Association
- Lethbridge College Faculty Association
- Medicine Hat College Faculty Association
- NAIT Academic Staff Association (NASA)
- Northern Lakes College Faculty Association
- NorQuest College Faculty Association
- Olds College Faculty Association
- Portage College Faculty Association
- Red Deer College Faculty Association
- SAIT Academic Staff Association (SAFA)

Overview:

ACIFA welcomes the opportunity to give input on the funding model review. Funding is critically important for the continued success of Alberta's post-secondary institutions. It has been almost two decades since the last funding review was done in Alberta; hence ACIFA appreciates the necessity of this review.

The goal of this funding review should not be to lower financial support to post-secondary education, but rather to support continued excellence in teaching and scholarly activity. The review should not focus only on the distribution of existing resources amongst institutions, but 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 also be found between individual student contributions (tuition fees) and taxpayers' contribution.

Principles to guide the funding model:

- Funding to post-secondary should be considered an investment, not 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.
- Funding levels should be sufficient to maintain, strengthen and protect core mandates.
- Funding levels should be stable and predictable to allow for planning. It is encouraging that the government acknowledged this principle in the survey document.
- Funding should not be punitive and should focus on the long-range health of a balanced, healthy society. Allocating resources efficiently cannot mean that post-secondary institutions face the continuous threat of losing funding because, due to circumstances beyond their control, they were unable to meet annual performance targets.
- Funding should be fair and equitable. Aligning funding to core mandates will lead to this. This should include the impact that post-secondary institutions have on their community.
- 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 this review lead to the development of an amended funding formula for the PSE system, it should be easy 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

During a funding review of this magnitude, it is necessary to weigh the benefit or "return on investment" of post-secondary education to Alberta's society and economy. Spending on PSE leads to a higher return than spending on almost anything else 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 public and private. The private benefits to the individual student are well known – a more rewarding career and higher income earning capacity. The public benefit, captured by society at large, stems from savings (or avoided cost) associated with improved health and lifestyle habits, lower crime rates, lower incidence of social assistance and unemployment – all associated with higher education of the individual.

In addition to the benefits mentioned above, there are the non-material but not insignificant benefits 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. In addition, post-secondary education cultivates the creativity necessary to address our social, technological and environmental issues through science, technologies and business ventures. The bulk of these benefits only manifest themselves over the longer term, as the effects of higher education show up over the lifespan of its recipients, while the cost of PSE has to be incurred in the present. Funding to PSE institutions should therefore be sufficient not only to ensure immediate operating needs are met, but also sufficient to respond to changing environmental demands. Diversifying Alberta's economy is the best way to shelter the province against oil price volatility. The PSE sector plays a central and irreplaceable role in equipping the labour force with skills necessary to diversify the economy.

Therefore, it is shortsighted financial management to reduce spending on a public service, such as PSE, that contributes to society's long-term well-being.

Goals of accessibility, affordability and quality

ACIFA appreciates and supports these goals. In order to achieve them, all three goals – accessibility, affordability and quality – should be realized simultaneously. For example, if affordability (tuition freezes) is achieved at the expense of quality education (program cuts and increase in class sizes) it undermines the intent of these goals. To prevent this from happening PSE institutions should be compensated for funding shortfalls brought about by the tuition freeze.

Another example of where the achievement of one goal can come at the expense of another is when accessibility means every potential candidate who knocks on the door of a PSE institute has to be accepted, as opposed to every candidate who meets the entry requirements is accepted and welcomed to be a student.

Finding efficiencies in resource use

In addition to best use of resources, finding efficiencies also means minimizing duplication in using resources. The main duplication that has happened in our system is mandate drift – institutions encroaching on each other's mandate. This became possible because under the current funding practice, institutions have the leeway to re-invent themselves and change the roles they were assigned by the architects of the six sector model. This has led to duplication of functions, services and programs. A great deal of efficiencies can be found if institutions fulfill only the roles they were designed for 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 made it possible to 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, into activities that

are only peripherally related to core mandates. There are many examples of this, but centers of entrepreneurship, centers of excellence or centers of leadership are some of the most notable examples. Too often these take PSE institutions away from core mandates – something which can be justified during times of affluence – but during times of scarcity core mandates must take priority. Many of these functions are “nice to have,” but not essential for the core mandates.

Administrative densification

A further dimension of funds drained away from core mandates is the expansion of administrative personnel relative to academic positions. The number of non-teaching positions, such as Associate Deans and Department Heads, have been expanding exponentially in all our institutions. This syphons funds away from core functions and often does not contribute to better core functioning.

In addition to minimizing duplication due to mandate drift and resources being diverted into peripheral activities, there are some efficiencies to be found in administrative functions as well as academic functions.

Examples of minimizing academic duplication are:

- Mechanisms for institutions to cooperate and find efficiencies where possible. This requires moving our system from a competitive model to a collaborative one
- The credit transferability system currently used in the province between PSE institutions is relatively robust, but there is room to leverage it more
- Sharing curriculum and programs between institutions, without harming intellectual property

Examples of minimizing administrative function duplication are:

- Combined or centralized back office services where applicable, where partnerships between institutions exist and where partnering institutions agree to it. If well done, this may lead to greater efficiency
- Sharing of information systems between institutions for various systems such as financial analysis
- Letting similar Institutions work together on legislative compliance matters
- Institutions in the same sub-sector work together on the development of guidelines or policy manuals which pertain to their business

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

A funding formula

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

Should the government decide to attempt developing 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 basis for resources 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 higher education data system that encourages transparency, accountability, and continuous improvement.

Outcomes-based funding

Extensive international research has been done on outcome-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.

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 did 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 conclude 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* include 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* include students' outcomes such as improved completion rates, retention rates, transfers, credit completion thresholds and successful completion of remediation. *Ultimate outcomes* include completion of degrees or certificates as well as workforce outcomes. The study found that policies appear to be less focused on ultimate outcomes such as graduation and job placements and more focused on intermediate outcomes. It also found evidence that institutions' awareness of their own performance and of the stated goals of higher education was higher in states in the USA with performance-based funding. In addition to evidence that these policies affected institutions' financial decisions, no evidence was found that outcomes-based funding policies affected (or improved) institutions' capacity as learning organizations and, or that outcomes-based funding was associated with improved student outcomes in the U.S context.

If funds are allocated based on performance/output criteria, it may result in winners and losers among institutions. This 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. 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 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 tied to annual indications of performance (often fluctuating due to external factors), the greater will be the uncertainty that institutions have to contend with annually. This will wreak havoc with the steady functioning necessary for the success of 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 to why they are actually there.

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 individuals and society broadly over both the short and long run. These are not readily recognized by 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 done in consultation with both management and the faculty association at each institution.
3. Align funding to the core mandates of PSE institutions but not by confusing 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 implies not subjecting PSE institutions to annual or other irregular fluctuations in their funding, but rather commit to funding for a 3- to 5-year time period. Stable and predictable funding has already been recognized in the government's request for input to its review.
5. Recognize the contextual differences between PSE institutions that sometimes create additional challenges in addition to performing core functions. 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, these should be recognized and reflected in their funding.
6. If applied research is identified as part of the mandate of a teaching institution, resources for it should be earmarked specifically.

Finally, we would like to thank the Alberta government again for including ACIFA in this initiative which has long-term consequences for our sector.

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