



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

OCUFA Analysis of the Drummond Report: Long on cuts, short on insight

Introduction: What's old is new again

Dark economic times have come to the province. The Premier, under pressure from business groups, appoints a prominent citizen to review the government's finances. His report proposes dramatic cuts to most social programs and the public sector, including education. There is no broad-based public consultation involving public servants, teachers, doctors or university faculty.

Sound familiar? No, this isn't Ontario in 2012; it is British Columbia in 1932. The Premier was Simon Fraser Tolmie, and the businessman was George Kidd. Fortunately for the people of BC, the recommendations of the Kidd Report are not implemented. Their economy recovers, and they go on to enjoy a period of unprecedented economic growth.

Economic crises – and the third-party reports they seem to generate – are nothing new. The Drummond Commission on the Reform of Public Services is simply the latest in a long line of government-mandated commissions that seek to use a recession to undermine and constrain the public services upon which citizens depend. And, just like all of those other reports, it falls to ordinary citizens to push back against short-sighted public service cuts.

What follows is a critical analysis of Drummond's recommendations. It examines the Drummond's recommendations for the higher education sector, and provides further commentary on his fiscal analysis and proposals for provincial labour relations. Overall, it finds that Drummond provides a series of recommendations without appropriate costing and with inadequate evidence that they will achieve the purported results. For a Commission that has enjoyed widespread public prominence, the final report is surprisingly thin on substance.

A Note on Sources

Drummond provides little evidence or data to support his recommendations on change in the higher education sector. What evidence he does provide is based almost exclusively on three sources: the book *Academic Reform*, written by Ian Clark, David Trick, and Richard Van Loon; the Higher Education Quality Council of Ontario; and the Ontario Undergraduate Student Alliance (OUSA). There was no formal consultation process, and it appears the Ministry of Training, Colleges and Universities provided little data to the commission.

This incomplete sourcing and lack of primary research by the Commission creates problems of accuracy and accountability for the report and its recommendations. Clark et al are third-party policy entrepreneurs, accountable to no one. The Higher Education Quality Council of Ontario,

despite its mandate, does not consult meaningfully with all sector stakeholders and pursues an idiosyncratic research agenda. OUSA is accountable only to its seven member student associations. Moreover, OUSA's university expenditure research, cited throughout the report, suffers from a deeply flawed methodology and reaches conclusions that are at best misleading, and at worst tendentious.

As such, OCUFA concludes that data used by the Drummond Commission is incomplete, and that the Commission failed to conduct the research necessary to make appropriate and useful recommendations for Ontario's higher education sector.

Drummond's Fiscal Analysis

When it comes to economic forecasts and projections of government revenue, assumptions matter. Assuming there are no changes in taxation rates, government revenues typically rise and fall in much the same pattern as gross domestic product (GDP). Pessimistic assumptions about GDP growth yield pessimistic conclusions about revenue.

The Drummond Commission adopted the same assumptions for growth in the next three years as the Minister of Finance did in his fall economic statement. Needless to say, what happens now affects the future. The respected Policy and Economic Analysis Program at the University of Toronto in October was forecasting considerably higher rates of economic growth than the commission. Even the alarmist report recently released by the Conference Board of Canada – [Ontario's Economic and Fiscal Prospects](#) – assumes that nominal GDP growth in the next two years will be above five per cent.

Forecasting further out into the future is even more speculative. Even if economists were to agree on nominal growth, different assumptions about GDP inflation would yield disagreement about real GDP growth. The Drummond's assumptions for average rates of growth leading up to 2018 are even more pessimistic than private sector forecasts.

Another key assumption is that there is a 'spending problem' in Ontario. As Canadian Autoworkers Economist Jim Stanford has observed, Ontario actually had a surplus prior to the 2008 financial crisis. In other words, we were paying our way. It was the ensuing recession's double-barreled impact on revenues – a decline in both GDP and a decline in revenue as a share of GDP – that put Ontario into a deficit situation. The deficit will decline if the economy improves. Drummond assumes that we are now in an indefinite period of slow growth. If, however, we are in a cyclical downturn, then we can expect growth to improve beyond Drummond's gloomy predictions. Were that to occur, Ontario's current level of spending and spending growth would quickly return to sustainability.

Drummond's assumptions, and the conclusions they produce, represents a huge fiscal drag on the Ontario economy. The scale of per-capita cuts proposed by Drummond will actually reduce GDP by \$10-18 billion, or 1.6 to 2.8 per cent. If growth remains slow in the short-term, these cuts could actually pull the economy back into a negative growth situation.

Drummond's mandate expressly excluded the revenue side of the deficit problem. Reform to the tax codes, or a reduction in corporate tax cuts would do much to reduce Ontario's deficit while preserving the quality and accessibility of the province's public services. Failure to include revenue in Drummond's purview undermines the utility of the report's recommendations.

In short, there is no reason to accept Drummond's fiscal projections as inviolable fact, and the cost of accepting his questionable assumptions and implementing his plan may impose a growth-killing fiscal drag on Ontario.

Labour Relations

All in, Drummond's model of labour relations consists primarily of hard bargaining on the part of broader public sector (BPS) employers, with government assisting the employer in setting compensation goals, costing existing compensation structures, comparing them to "benchmarks" and then supporting the employer when the going gets tough.

There are no recommendations in the report to create any form of centralized bargaining for universities, government wage awards or freezes, or any other tool that would allow the government to directly intervene in university bargaining. Drummond categorically rejects these forms of interventions, noting that wage freezes are invariably followed by catch-up that leaves the system unchanged.

He notes that moderation of labour compensation will be essential to hold program spending increases to 0.8% per year, given that compensation accounts for half of Ontario government spending. He clearly expects that dramatic reductions in spending will do the heavy lifting for government, forcing wage restraint on the parties as well as a reduction in the size of the work force. Thomas Walkom, a columnist for the Toronto Star, estimates that as many as 250,000 jobs will be cut, driving the Ontario unemployment rate over 11%.

Drummond recommends that the government create a Labour Relations Information Bureau to create data relevant to bargaining, particularly on measures of productivity. He further recommends that the government create comprehensive benchmarking system for the BPS on total compensation that includes benefits, pensions, and movement through a grid.

While noting that the interest arbitration system generally works where the parties in the sector have negotiated settlements to use as benchmarks, he nonetheless recommends rather sweeping changes to the interest arbitration system. Most controversial is his recommendation that the parties no longer be allowed to select their arbitrator, but rather he/she be assigned by a tribunal independent of both the parties and the government. He wants timelines established for the issuing of awards, clear criteria particularly on ability to pay, and clear assessments and reasons provided in all awards.

He recommends that the Ontario Labour Relations Board be given the power to rationalize bargaining structures. Under his model, unions may apply to merge existing units, or combine newly certified workers into an existing unit. This is in fact a position OCUFA has recommended to the government in our current advocacy efforts on labour relations reform.

Overall, Drummond supports the status quo of local bargaining for reaching a collective agreement, but with more information and direction given by government to the employers. He is counting on the devastating size of his cuts to the funding of public services to force the parties to bargain concessionary agreements, eliminate jobs, and find “efficiencies”, which obviously can only translate into dramatically higher workloads for the remaining public sector workers.

Recommendations on Higher Education

Drummond’s higher education-specific recommendations are divided into seven broad thematic areas. Each of these areas will be examined in turn.

1. Contain government funding and institutional expenses

The most significant recommendation for higher education is that increases to government spending be held to 1.5 per cent per year. As the report itself freely observes, this amount keep pace with neither inflation nor projected enrolment. It therefore represents a significant cut, one that will get larger over each consecutive restraint year.

Again, assumptions matter. For its “status quo” scenario, the commission assumes that expenditure growth in the post-secondary sector will increase almost four per cent per year. It is not clear how the commission arrived at this figure, beyond relying on suspect data generated by Clark *et al* and OUSA. Calculation of yearly cost and expenditure increases depends primarily on the period of time used for analysis. The five years of growth under the government’s *Reaching Higher* plan – used by both OUSA and Clark *et al* – does not reflect the more recent reality of hiring freezes and negotiated increases that are less than the rate of inflation.

The commission acknowledges that funding from the provincial government is the lowest in Canada on a per student basis, and intimates that tuition paid by Ontario students is not enough to close the gap. It refers to quality decline as an “inevitable” result. At present, Ontario universities already have the lowest provincial operating funding per student, the lowest provincial operating grants and net tuition revenue per student, the lowest expenditures per student, the lowest expenditures on faculty salaries per student, and the worst student-faculty ratio.

The commission proposes to ensure that Ontario universities fall even further behind by limiting growth in MTCU funding to 1.5 per cent per year. This ‘increase’ is in reality a cut; the effects of inflation and enrolment increases will steadily erode operating funding per university student. The shortfall would be \$580 million in the final year of Drummond’s projections. The cumulative damage would be over \$1.8 billion (the figures for colleges are smaller, but no less dire).

It would appear that some of the funding gap is meant to be filled by students and their parents through increased tuition. The commission proposes to permit average tuition increases of five per cent per year, continuing the shift of educational costs to young people and their families. Even if tuition fee increases were sufficient to make up the shortfall in government funding, they

will make no dent in the \$900 million gap between Ontario universities' per student revenue from of government grants and net student fees and the average level in the rest of Canada. Further, Ontario's students already pay the highest tuition fees in the country.

It is hard to get around the fact that there will have to be classrooms, laboratories and the like to accommodate enrolment expansion. In the absence of government capital funding, institutions may find it necessary to enter the debt market. Whether it is to divert operating funding directly towards capital expenditures or to service debt, the result is a further squeeze on operating funding. To put this in perspective, the Council of Ontario Universities estimated in 2009 that it would cost \$9.4 billion over ten years to accommodate expected enrolment increases. Stimulus funding from the federal and Ontario governments, and subsequent provincial commitments amount to \$1.8 billion. Even with more intense usage, it is hard to imagine how the other sources of cost savings contemplated by the commission will bridge the remaining gap.

To further contain costs beyond the proposed cut to university funding, Drummond proposes that the government work with "post-secondary institutions to reduce bargained compensation in order to align increases with the trends in the BPS".

To understand what Drummond means by "work with", we need to consider his recommendations in Chapter 15, Labour Relations, regarding BPS compensation as a whole. While generally supportive of maintaining local collective bargaining as the process by which compensation is established, he would like to see the government take a much more active role in establishing benchmarks for total compensation in the BPS. The proposals essentially focus on government assisting the employer in setting compensation goals, costing existing compensation structures, comparing them to "benchmarks" and then bargaining hard to get them into collective agreements.

Drummond uses his own runs from the Labour Force Survey to conclude that public sector compensation needs to be moderated relative to the private sector. He also relies on the OUSA paper to conclude that faculty compensation increases by 3 to 5 percent annually, which is based on a deeply flawed analysis of unadjusted Statistics Canada data. In fact, faculty settlements for 2011 ran at 1.5 per cent, below the private sector rate of 1.7 per cent and the BPS settlement pattern of 1.6 per cent. Drummond's incorrect conclusion that faculty compensation is out-of-line with broader trends reflects the deep problems with the research that informs his recommendations on higher education.

2. Use differentiation to improve post-secondary quality and achieve financial sustainability

'Differentiation' is a curious concept within higher education policy circles. It is presented as a means to preserve quality and increase efficiency in the face of resource constraints and growing enrolment. Rarely, however, does anyone precisely define what 'differentiation' means. Drummond is no exception to this trend.

There are several possible interpretations of differentiation: difference between institutions in program mix; differences according to the balance of undergraduate and graduate studies; and differences in terms of institutional mission, particularly the balance between teaching and

research. The Drummond report does not specify a definition of differentiation, an ambiguity which undermines the usefulness of his recommendations.

The general thrust of his recommendations is that new mandate agreements should be created to “increase differentiation and avoid duplication”. Based on the report’s commentary, this does not seem to involve closure or rationalization of existing programs based on government direction. Rather, Drummond’s focus is on empowering government to control the introduction of new programs, particularly in graduate and professional studies. If implemented, these new mandate agreements would make it harder for individual institutions to launch new programs without a convincing case based on student demand or geographic need. Provided the development of these mandate agreements is open and consultative, this is not necessarily a negative recommendation. However, OCUFA rejects in principle any attempt by the Government of Ontario to interfere with academic planning and the operation of existing programs. Our current institutional and program mix has evolved organically with the needs of students and communities in mind. Closing programs will impair the accessibility of the system, as students will no longer be able to access comprehensive university programming in their local communities.

The report also recommends assigning responsibility for the development of new mandate agreements to a ‘blue ribbon panel’ or HEQCO. OCUFA believes that the development on any agreement – from the existing Multi-Year Accountability Agreements (MYAAs) to new mandate agreements – should be based on extensive consultations with students, faculty, and the local community. We are concerned that a blue ribbon panel would not have a significantly robust mandate to conduct such a consultation. Similarly, HEQCO has an abysmal record of sector consultation, and would be an inappropriate body for developing new mandate agreements.

The report also recommends improving Ontario’s credit transfer system. OCUFA has no objection to greater student mobility, provided academic freedom is preserved and negative financial implications are avoided. However, we firmly believe that improved credit transfer will actually require significant new funding in order to produce best results for students. Such new costs would include a new infrastructure to facilitate student transfer; funding to support greater movement of students from university-to-university and college-to-university; and funding to develop new college-to-university bridging programs. Like many of Drummond’s recommendations, credit transfer will not save Ontario money. It may improve system flexibility for students, but only at a significant cost.

Finally, Drummond recommends “a rational and strategic division of roles between the college and university systems” be developed. This division of roles has been part of the Ontario higher education sector since the creation of the community colleges in the 1960s, and the clear division of roles has only subsequently been blurred by a combination of institutional aspirations and political expediency. Drummond’s most substantive recommendation to restore the strategic balance of roles is to limit degree-granting by the community colleges. OCUFA supports this position.

Overall, Drummond's differentiation recommendations are poorly defined, and provide little, if any, real savings. If anything, implementing these recommendations in a student-friendly way will require significant new government investment.

3. Encourage and Reward Quality

Drummond's recommendations on quality are focused heavily on teaching quality and performance indicators. On the teaching front, he recommends that institutions "devote more resources to experiential learning such as internships; allow for more independent or self-assigned study; develop problem-based learning modules; and increase study abroad and international experiences." While most of these have potential to enhance the student experience, it is unclear how any of them would deliver savings or greater efficiencies. It is paradoxical that Drummond should recommend devoting greater resources to the student experience in one area, while calling for the dramatic reduction of these resources in another.

Drummond's also encourages universities to pursue collective agreements that provide flexibility on teaching and research workloads. This recommendation is exclusively based on Drummond's review of the HEQCO paper on teaching stream faculty. As he did not do any analysis of faculty collective agreements himself, Drummond concludes that the 11 universities that are identified in the paper as having teaching streams are in fact the only institutions that allow flexibility of workload. In fact, OCUFA's analysis of the Ontario faculty agreements shows that flexibility of career path is widespread in the province, with a myriad of provisions allowing for elements of a faculty workload to be adjusted through individual negotiation.

The use of "encourage" once again must be read in the context of his overall framework for labour relations, which does not involve any change to the local bargaining model for establishing terms and conditions of employment. He clearly favours a merit-driven model for both "rewards" (which might possibly mean additional compensation) as well as changes to teaching or research workload.

Drummond is also keen to adjust incentives that favour research over teaching, yet provides no evidence to support his contention that current incentive systems across the system are weighted in favour of the former. Further, there is no evidence that local criteria do not support innovation in teaching. As we know, institutional mandates differ widely in Ontario, and as a result, so do the criteria for tenure and promotion. Some universities and faculty associations believe merit should be a component of compensation, others do not. Drummond does not address the biggest incentive for institutions to pursue more research-intensive mandates: the pervasive underfunding of institutions through operating grants. Since much new money has been made available to support research and innovation, cash-strapped universities have adjusted their activities accordingly.

Drummond also suggests that funding be made sensitive to learning outcomes rather than growth. While he is correct in observing that the current formula encourages universities and colleges to increase enrolment, he does not recognize that this is due to the current inadequacy of per-student funding. If institutions received adequate funding per student, they would face less

pressure to grow for the purpose of increasing revenue. More to the point, they would also have more resources to dedicate to student learning.

The report also makes several problematic recommendations with regards to quality indicators. First, it suggests that teaching evaluations and student satisfaction be incorporated into accountability agreements. At present, there is no common teacher evaluation score process in the province. Evaluation processes vary widely between institutions, and are rarely if ever designed for the purpose of sector-wide comparison. Comparing results captured by institutional course evaluations would by and large be a meaningless exercise.

Increasingly, student satisfaction ratings are carrying more weight as performance measures, a trend we are watching with some alarm (NSSE scores have recently been added to the multi-year accountability agreements). However, NSSE was not designed for system wide use where institutions have different mandates and serve different student bodies. Regression analysis on results has shown that, when controlling for a variety of factors like institutional size, catchment, program mix and demographics, differences in student satisfaction shrink considerably. Student satisfaction is a poor proxy for actual learning outcomes, and should be used with caution.

The Drummond report's quality recommendations conclude with the idea that funding should be tied to outcome quality indicators. This idea has been floated for decades, and the problem is always the same: such a funding mechanism takes resources away from institutions that need it most, and hurts students at institutions not seen to 'measure up' to poorly designed proxy measurements of quality.

A performance funding envelope was introduced in the late 1990s by the Harris government and subsequently changed to reduce its punitive character: it is counter-productive to withhold funds necessary to accomplish the very goals the funding is meant to encourage. OCUFA has also contended for years that the plethora of funding envelopes and related reporting requirements increases administrative costs and diminishes universities' capacity to plan and sustain the very programs the envelopes are supposed to support. Requiring universities to compete for such funding can only compound the problems. Net gains to students are, at best, theoretical.

4. Revise research funding structures

There are two parts to the Commission's recommendations on research. In the section that deals with research in the post-secondary sector, it proposes greater evaluation of the research funding system's effect on university budgeting practices and a more efficient method of administering provincial research funding. The second is uncontroversial. The first proposal is more problematic for two reasons: it rests on the suggestion that the nature of research funding requires universities to subsidize research costs from other sources, and it seems to assume that research funding is an "investment" for which a commercial return must be its measure of success.

OCUFA has objected to demands that university research funding be funneled to areas of presumed commercial benefit or preferred priorities precisely because universities' limited operating resources are re-directed from other research activities that have no immediate

commercial value. But that is different from the commission's intimation that teaching subsidizes research. Despite the fact that most provincial funding is allocated according to enrolment, it does not mean that funding is based only on enrolment, as operating funding has always been intended to support teaching and research.

The implication that Ontario university researchers are less productive than their American counterparts because they earn proportionately less licensing income also seems to suggest that university researchers are supposed to be better entrepreneurs than the entrepreneurs with whom they are expected to work to bring university research to market. Canadian and Ontario business investment in research and development has been consistently and markedly lower than the average in the rest of the OECD or G7 nations.

Elsewhere in the review, the commission recommends a review of business support programs. It is not clear what the implications of this would be for provincial support of university research. The commission does question the value of tax credits to business. According to the Minister of Finance's economic statement in fall 2011, tax credits for research and development and innovation amount to \$365 million. If those were cancelled, the funds might be directed instead to restore recently cancelled Ontario Research Fund programs, or to fund universities' indirect research costs and reduce the apparent subsidy of research from operating sources. However, the commission also recommends pooling of refundable tax credits and direct subsidies into a single envelope. Ministries would then have to compete for the pooled funds according to plans for productivity improvements in the economy.

5. Maintain the current overall cap on tuition fee increases, but simplify the framework

Central to the Drummond report's recommendations on post-secondary education is the assertion that a tuition freeze would not be in students' interest. Drummond claims that the reduction in institutional revenue that would result from a tuition freeze would lead to the deterioration of education quality, which would ultimately harm students. This accepts, however, that government can and will abdicate its responsibility to adequately fund post-secondary education in Ontario. Drummond recommends that the current five per cent overall annual tuition increase should continue, but should be modified to allow for greater flexibility across programs and student types within institutions. This recommendation allows students' financial burden for post-secondary education to increase substantially while letting government off the hook from funding post-secondary education at a reasonable level.

For Drummond, 'simplifying the framework' means preserving the five per cent tuition cap while allowing institutions more flexibility to set fees within that framework. At present, fee increases for undergraduate arts and science students are limited to four and 4.5 per cent, depending on year of study. For professional and graduate degrees, the cap is eight per cent. Drummond proposes removing these program caps, provided the institution does not exceed the five per cent hard ceiling. While this may not lead to sharp fee increases, student groups are concerned it will undermine fee predictability and lead to unsustainable long-term fee increases.

Ultimately, given the continued tuition increases without a corollary increase in government funding for colleges and universities, the Commission's call for an effective cut to provincial

funding for post-secondary education further shifts the cost of higher education onto the backs of students and their families.

6. Re-evaluate student financial assistance

On student financial assistance, the Commission's recommendations attempt to compensate for rising tuition costs by calling for increased student access to financial support through government funded grants, particularly for low-income students. This is offset by calling for an increase to post-secondary institutions' financial responsibility for OSAP loan defaults. This recommendation, however, would merely shift the cost of loan defaults from the provincial government to colleges and universities. That said, the current default rates for universities (3.7%) and colleges (10.6%) are so far below the proposed adjusted threshold at which post-secondary institutions would be required to reimburse the province for default costs (20%, down from 25%) that the recommended changes would likely not result in any real change to post-secondary institutions' financial obligations.

None of the recommendations are costed out, however, and the report does not provide a clear indication of the savings the proposed tuition and student assistance reforms will generate. One is left to conclude that the primary goal of Drummond's tuition and financial aid recommendations is to continue the shift of educational costs onto students and their families, while targeting aid money towards those most affected by this shift. This is a familiar strategy to observers of Ontario's higher education system.

7. Generate cost efficiencies through measures such as integrating administrative and back office functions

The report concludes with suggestions for saving money through increased administrative efficiency, primarily by establishing a single pension fund administrator and by adopting a new model of degree delivery at Ontario universities.

In terms of a single pension fund administrator for all university plans, this is not a new recommendation. The Council of Ontario universities established a working group on pensions several years ago to quantify the potential savings from consolidation of pension assets. Although the working group has not moved to implementation of this proposal, we understand that the committee is in fact still active on this issue.

Drummond also throws his weight behind the 2011 budget announcement of a review of single employer, public-sector pension plans. According to OCUFA discussions with Finance Ministry staff in January 2012, the review has been subject to some internal development, but no announcement on its establishment or start date is imminent.

The report also suggests that universities should explore year-round programming and three-year degree programs. The first recommendation ignores the realities of student finance and the student labour market, while depending on a rather facile understanding of how resources are used at universities throughout the year. The three-year degree proposal fails to recognize trends in student demand: existing three-year options are highly unpopular with students, to the point

that they are being phased out by some institutions. Moreover, students want more flexibility to complete their studies, not less time. Again, Drummond provides no explanation of how these proposals might work, or what savings they would generate.

Conclusions

The final report of the Commission on the Reform of Ontario's Public Services is a poor plan for 'transforming' our public services. It is essentially a roadmap for huge cuts hiding behind a screen of poorly costed and considered recommendations for change. In particular, the report:

1. Is based on a variety of questionable economic assumptions, predictions and forecasts;
2. Is first and foremost a plan for huge cuts;
3. Sets the stage for hard-bargaining throughout the broader public service;
4. Proposes a funding framework for higher education that does not keep pace with inflation or enrolment, and as the paper admits, will lead to a decline in quality;
5. Provides recommendations for generating efficiency and savings in the higher education sector, with no evidence of how this will happen or how much it will save;
6. Proposes shifting educational cost onto students and their families; and
7. Relies on third-party policy entrepreneurs for research, much of which is incorrect.

In short, this is not the way forward for Ontario. The downturn-as-justification-for-cuts scenario is an old one, and it has been rejected by the public before. It is now critical that the Government of Ontario pursue an alternative strategy that takes into account the needs and concerns of Ontarians – a strategy that protects education, promotes effective economic and social development, and rejects the logic of austerity.