



New Hope in Uncertain Times

The Ontario colleges' submission for
the 2018 provincial budget

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COLLEGES
ONTARIO

Table of contents

Introduction	2
Economic disruption	4
Fiscal challenges	6
Funding requirements	8
Conclusion	12



Introduction

The new age of disruption will have profound implications throughout Ontario. Rapid accelerations in automation and new technological innovations will transform every aspect of life in this province.

This new age – commonly known as the Fourth Industrial Revolution – will continue to disrupt the economy, with many traditional businesses continuing to disappear or undergo fundamental changes as new businesses and methods for doing business are created.

The disruptions will also change the way people interact with each other. They will transform the relationship between the public and governments, and continue to create new ways for people to get news and information and engage with the world around them.

They will most certainly affect the nature of work. While nothing can be predicted with certainty, one thing seems clear: unskilled labour is on the edge of extinction.

Artificial intelligence, the rise of the robots, and other advancements will create an accelerated demand for a more highly skilled workforce.

For Ontario to have a robust economy where people can continue to pursue rewarding careers, people entering the new labour market will need a greater level of expertise – expertise that ensures they provide added value to the work done through automation.

As well, people already in the workforce who need further education or retraining will need improved access to post-secondary education.

More than ever, it will be critical that more people acquire the professional and technical expertise that comes from a college education. This is particularly true for people in groups that have traditionally been underrepresented in higher education.

Ontario's college system is at a tipping point. It must either be funded to fully embrace its role in the new economy or it must retrench and manage existing resources to provide fewer programs.

More than ever, it will be critical that more people acquire the professional and technical expertise that comes from a college education.

Without additional funding, colleges will be forced to cut programs and reduce access to some of Ontario's most in-demand programs. The impact will be particularly acute at many of Ontario's small and medium-sized colleges.

Since 2007-08, Ontario's colleges have suffered an accumulated shortfall – adjusted for inflation – of about \$900 million.

The predictions for the years ahead are even worse. A report released in early 2017 by PricewaterhouseCoopers said colleges could face an annual operating deficit that will exceed \$400 million a year by 2024-25 and a cumulative shortfall of more than \$1.9 billion by that time. Colleges recognize those estimates could change as international enrolment changes.

Ontario colleges are facing a number of long-standing and significant cost pressures, but there are additional and immediate costs associated with Bill 148, the Fair Workplaces, Better Jobs Act.

There is an urgent pressure to find solutions, given how quickly the new legislation is being implemented.

New funding to address the fiscal crisis would help ensure that more people in Ontario have pathways to good jobs and that they acquire skills that can sustain them throughout their careers.

The funding would support the continuation of high-demand programs that equip students for the jobs most in demand. It would allow colleges to invest in new innovations and technology and would protect more than 5,000 good jobs at colleges in communities across the province.

New funding would also ensure that greater numbers of at-risk students will successfully complete their college education.

Economic disruption

As the world moves deeper into the Fourth Industrial Revolution, Ontario's economy will continue to be rocked by dramatic shifts.

Traditional business models are already being overturned. The new sharing economy has seen enterprises such as Uber and Airbnb use technology to create entirely new approaches to business.

In the retail sector, Amazon has created a pilot project, Amazon Go, which allows people to purchase items at a grocery store without having to go to a cashier or through a checkout line.

Self-driving vehicles will have a profound impact in the years ahead. There will no longer be any need for human truck drivers.

In the future, the accelerated changes will hit Ontario at an even greater pace. Every sector will be affected. Robotics, artificial intelligence and other advances will affect everything from agriculture and manufacturing to accounting, health care, education and more.

The Brookfield Institute for Innovation + Entrepreneurship at Ryerson University estimates more than 40 per cent of the Canadian labour force is at high risk of being affected by automation within the next 10 to 20 years. High-wage jobs that have traditionally required only a middle-level set of skills are particularly vulnerable.

“Remember bank tellers? Telephone operators? The fleets of airline workers behind counters who issued tickets? Service station attendants?” wrote political economist Robert B. Reich, the former U.S. secretary of labor, in his 2010 book, *Aftershock: The Next Economy and America's Future*.

“These and millions of other jobs weren't lost to globalization; they were lost to automation. America has lost at least as many jobs to automated technology as it has to trade.”

Most likely, new jobs will replace many of the jobs that disappear. What is far less certain is whether the new positions will be rewarding careers that pay well.

Ontario's economy will continue to be rocked by dramatic shifts.

Ontario must ensure it is at the leading edge of the new economy, producing rewarding careers that allow everyone entering the workforce to make a meaningful contribution.

Fifty years ago, Ontario's college system was established to ensure more people could acquire a post-secondary education that prepares them for successful employment. The system has grown and evolved to the point that colleges now offer 900 career-specific programs that provide students with the qualifications and advanced skills to pursue many of today's most in-demand fields.

College programs reach a wide range of students, in everything from apprenticeship training to post-graduate programs for university and college graduates.

Ontario's colleges provide many students with work-integrated learning opportunities, to help ensure people entering the workforce can provide real value without the need for much on-site training. There is tremendous potential to expand those workplace opportunities in the years ahead.

As well, colleges help businesses throughout the province become more innovative. Each year, colleges work with about 1,200 companies across Ontario to pursue market-driven applied research activities that create new jobs, higher sales, and improved products and production because of their college collaboration.

Colleges provide accessible post-secondary education to some of Ontario's most vulnerable students, helping many at-risk students successfully complete their post-secondary education.

As the economy is radically transformed, colleges must be able to continue providing retraining and upgrading programs for older workers and others who must learn new skills for new careers.

This is especially true as the government strives to ensure the economic recovery is more broadly shared throughout the province.

The disruptions in the economy have been particularly profound outside the large urban centres. Many people in rural and northern communities who lost their jobs are struggling to find their way back into the workforce.

Often, their best hope is to pursue retraining and new training programs at college.

Unfortunately, it is in many of these same communities where the local college is struggling to maintain its programs, due to declining enrolment and the chronic underfunding of colleges.

The college system's pivotal role in strengthening the economy is being weakened at the exact time when people need improved access to college programs.

Fiscal challenges

Ontario's colleges have reached the breaking point.

Demographic challenges – combined with years of underfunding – have made the current system unsustainable.

Since 2007-08, the decline in real per-student revenue for college education in Ontario has created an accumulated provincewide shortfall of about \$900 million.

The projections for the years ahead get worse. A report released in early 2017 by PricewaterhouseCoopers said Ontario colleges collectively face an operating deficit of more than \$400 million a year by 2024-25. The report said the colleges face a cumulative shortfall of more than \$1.9 billion by 2024-25.

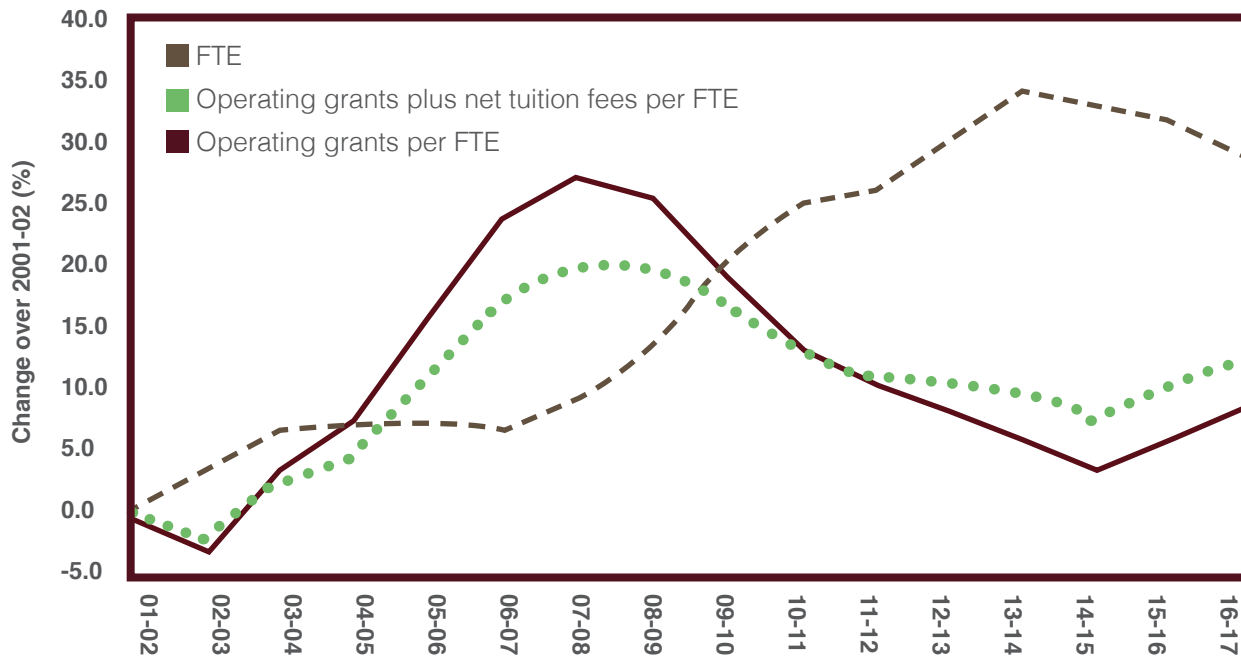
While the new funding formula for colleges provides some help, it is definitely not a panacea.

It must also be stressed that the PricewaterhouseCoopers calculations were done before the government announced its plans to change the structure of the province's workplaces. The recently passed Fair Workplaces, Better Jobs Act is expected to create significant additional costs to college operations.

In order to achieve their critical mission to provide job-ready graduates that are in demand from employers, Ontario's colleges require increased funding. Programs for the province's most vulnerable students are in the greatest need of increased financial support.

Demographic challenges – combined with years of underfunding – have made the current system unsustainable.

Figure 1.
Enrolment and revenue changes, 2001-02 to 2016-17 (indexed 2001-02)



Sources: Ontario Ministries of Advanced Education and Skills Development and Finance, Statistics Canada and Colleges Ontario.
 Note: Revenue figures are in constant 2002 dollars. Figures exclude tuition set-aside, collaborative and second-entry nursing, nursing pilot and clinical education funding for collaborative nursing. Also excluded is the portion of funding for other organizations that is not for the college sector. Regulated tuition fees.

For years, colleges have attempted to manage these shortfalls through collaboration and greater efficiencies. These include a provincewide approach to collective bargaining that has led to wage increases that were more modest than the increases in the universities and in the elementary and secondary school levels.

Efficiencies have also been achieved through the colleges' provincewide pension plan and the centralized services for student applications, libraries and resource centres, along with the sharing of academic programming.

It is no longer possible to maintain the status quo at current funding levels. Without additional funding, colleges will be forced to make significant cuts to programs and services.

Funding requirements

Core operating grant

System-wide costs and revenues

Unlike the situation at hospitals and school boards, the government hasn't covered inflationary cost pressures at colleges for many years.

Meanwhile, the government is benefiting from inflationary increases to its own revenue streams. Service fees charged by the province are now being increased annually to keep up with inflation. Furthermore, the federal government has committed to increase funding for two key provincial transfers – the Canada Health Transfer and the Canada Social Transfer – by three per cent annually.

Just to cover cost increases and maintain current operations – without making any improvements to programs and services – colleges need an additional \$115 million in operating funding in 2018-19.

This estimate is based on forecasts of costs and revenues for 2018-19. The cost forecasts assume that there are no changes in domestic enrolment or the number of staff, and no changes to programs or services. They also don't include the additional cost pressures created by the Fair Workplaces, Better Jobs Act.

Colleges look forward to working with the recently established provincial task force examining issues such as the staffing ratios in the sector. At the same time, many of the budget pressures must be addressed immediately, given how quickly the new legislation is being implemented.

In 2018-19, system-wide costs for compensation and other expenses for college operations will be \$140 million higher than in 2017-18.

Increases in domestic tuition fee revenues are expected to generate approximately \$25 million, which will help to offset the pressure from anticipated cost increases. However, even taking into account the growth in tuition revenue, the college system is projected to face a net funding gap of \$115 million. There are also significant local costs that vary by college.

While international education is critical to the province's innovation agenda and its economic success, the tuition fee revenues that come from international students have been excluded from the revenue stream in Table 1 below.

There are a number of reasons for this exclusion. For one thing, the entire cost for delivering programs and services to international students have to be covered by their tuition fees,

since the province does not provide operating grants to colleges for international students. And for many colleges, international revenues have little bearing on the fiscal pressures they face. The unpredictability of international opportunities makes it challenging for colleges to continue to look to international revenues to cover future shortfalls in funding.

Table 1.
Expected increases in college system costs and revenues in 2018-19

Projected increases in system-wide costs	\$ 140 M
Estimated increase in tuition revenue	\$ 25 M
Funding gap	\$ 115 M

Notes: Costs are pro-rated to reflect only the portion that can be attributed to post-secondary enrolments. These are estimates prepared by Colleges Ontario based on data from CFIS and the College Employer Council.

Funding equivalency for part-time activity

The current level of funding support for part-time activity provided by the core operating grant is insufficient and a key barrier to the college sector's efforts to reach greater numbers of learners.

Currently, the operating grant income per course hour for part-time students is only about half the amount provided for full-time students. Part of the reason for that huge difference is that part-time funding is based on an old costing model that was created when it was less expensive to teach part-time students. As college programming has evolved, that costing model no longer applies and the funding difference can't be justified.

The core operating grant to colleges must be enhanced to support greater numbers of part-time students. In fact, even greater enhancements will be needed with the passage of the Fair Workplaces, Better Jobs Act.

The rapidly changing economy will create significant challenges for many older workers and others whose current skills will become obsolete.

More than ever, Ontario will need a flexible college system that helps greater numbers of people get access to retraining and upgrading programs.

Investment proposal: \$165 million increase for the core operating grant

Ontario's colleges face unprecedented financial challenges. This is particularly true for the small and medium-sized colleges.

While demographic trends have contributed to this situation, the long-term failure to address inflationary cost pressures is also a major factor. The colleges are urging the government to enhance the core operating grant by \$165 million in 2018-19.

The funding will allow colleges to manage cost-of-living increases in human resource costs, along with non-salary expenses in areas such as utilities, maintenance and supplies. It will also allow colleges to deliver more programs to part-time students.

Capital investments

Infrastructure renewal (deferred maintenance)

Today's learning spaces are very different from what existed 50 years ago when the college system was first established.

College facilities must be reconfigured, repurposed and renewed on an ongoing basis as new programs are developed, environmental standards are updated and service delivery approaches are modernized. College spaces must be equipped with the digital infrastructure to accommodate the new technologies that are used by students, faculty, administrators and others.

Many college programs are technologically intensive and make extensive use of lab facilities that require specialized equipment. Furthermore, the instructional equipment used to teach students

has to meet industry standards so that graduates can enter the workforce with the ability to operate the equipment with minimal additional training.

College facilities also need to be safe, comfortable, reliable and accessible for students, staff and others who visit the campuses. They need to comply with building code standards across the province and to meet today's efficiency and environmental sustainability norms.

Many colleges were established in the mid-1960s and have aging infrastructure. While the government has provided new investments for infrastructure renewal on an ongoing basis, the level of investment was very low for a number of years. This has meant colleges were barely able to address their most pressing needs.

The increased funding for deferred maintenance that was announced in the 2014 budget to address critical repairs and upgrades represented an important first step in addressing the aging infrastructure problems of the college system. However, the colleges' share of the funding remains low. In 2017-18, the colleges were only expected to receive about \$20 million for deferred maintenance.

Meanwhile, the deferred maintenance backlog in the college sector is continuing to grow and is estimated to be close to \$4 billion within a decade.

According to industry standards, an annual investment of 1.5 to 2.5 per cent of the current replacement value is needed. That represents an investment of about \$200 million per year for infrastructure renewal, based on the current replacement value of \$9.9 billion.

The current funding to colleges is significantly less than the minimum amount needed, which means the backlog of critical repairs will only get worse.

Instructional equipment and digital infrastructure

Ontario's colleges greatly appreciated the government's April 2017 announcement of \$50 million in one-time funding for new equipment and learning resources to help celebrate the 50th anniversary of the college system.

Over the long term, however, the funding for instructional equipment needs to be predictable and sustainable.

The current \$8 million annual allocation for the college equipment

renewal fund is simply insufficient if colleges are to update instructional tools, equipment and other learning resources to meet current standards.

As well, colleges need to upgrade their digital infrastructure, including hardware and system upgrades, to support the move to an increasingly digital economy. This includes new technology to support digital delivery and simulators, and software to support student learning and administrative functions.

Investment proposal: \$100 million increase for college capital

Ontario's colleges know it is unlikely the government will be able to completely address the deferred maintenance backlog in the short term.

However, as an initial response, the colleges are requesting that the government increase its funding for infrastructure renewal in 2018-19 by an additional \$75 million.

This amount is above the funding that has already been committed for infrastructure renewal in 2018-19.

In total, colleges are proposing the government provide additional funding of \$100 million in 2018-19 to allow colleges to address deferred maintenance and to upgrade instructional equipment and digital infrastructure.

Conclusion

Ontario's colleges want to collaborate with the government to renew the college system, to make it the best in Canada. This will ensure colleges can continue to provide students with the skills they need to get a job and so that Ontario can remain attractive to employers seeking the best, most highly skilled labour pool.

Significant new investments are required to maintain the colleges' high-quality programs and to ensure the province is keeping pace with the new demands of employers seeking the best talent. This is particularly important for small and medium-sized colleges serving communities outside of the GTA.

The training students receive at colleges gives Ontario a tremendous competitive advantage. The province must ensure this advantage remains and is strengthened, particularly at a time when Ontario is facing more and more international competition for jobs. New investments will ensure that people from all walks of life can acquire the specialized qualifications to succeed in the new economy.

The Ontario government must invest in its workforce. It must use its 2018 budget to end the fiscal crisis and commit to the long-term sustainability of college education in Ontario.

