



Why we did this audit:

- \$317 million operating grant to ten universities in 2014-15
- \$50 million operating deficit predicted for universities by 2018-19
- Some universities with financial issues required emergency funding
- Financially healthy universities important to provincial economy
- Universities contribute \$1.4 billion to provincial gross domestic product

Overall conclusions:

- Department not regularly monitoring financial health of universities
- Funding allocation is historical and has not been updated
- Agreement with universities not meeting all objectives
- Department agreed with all seven recommendations

What we found in our audit:

- Province had a process to provide emergency funding
- Some objectives of agreement between universities and Department met
- No overall direction for universities to achieve accountability and long-term sustainability
- Funding allocation last updated in 2010-11
- Department not regularly monitoring financial health of universities
- Measures to assess improvements in university efficiency not adequate
- Funding aimed at reducing university costs has not met its goal



4 Labour and Advanced Education: Funding to Universities

Background

- 4.1 The Department of Labour and Advanced Education provides operating grant funding to Nova Scotia's ten universities through the Universities Assistance Act. In 2014-15, the total operating grant provided was \$317 million, spread across the ten universities in the province. After reductions to the grants in recent years, funding increased in 2014-15 (see chart below).

Total Provincial Operating Grant (\$ millions)				
University	2011-12	2012-13	2013-14	2014-15
Acadia University	\$28	\$27	\$27	\$27
Atlantic School of Theology	1	1	1	1
Cape Breton University	19	19	18	18
Dalhousie University	169	164	158	166
Mount Saint Vincent University	21	20	20	20
Nova Scotia Agricultural College	7	7	6	Note 1
Nova Scotia College of Art and Design (Note 1)	9	8	8	8
Saint Mary's University	36	35	34	34
St. Francis Xavier University	30	29	28	28
Université Sainte-Anne	8	8	8	8
University of King's College	6	6	6	6
Total	\$335	\$324	\$314	\$317

Note 1: Nova Scotia College of Art and Design operating grant paid as part of Dalhousie University operating grant

Source: Department of Labour and Advanced Education – totals do not add due to rounding

- 4.2 Nova Scotia's universities are important for the economy of the province. A report on the export value of Nova Scotia's universities was prepared in 2011. It estimated that in 2009-10, universities' activity added \$1.4 billion to provincial gross domestic product, 19,000 jobs, \$265 million in tax revenue, and \$750 million in annual export value. The report also identified universities as very important to growing our economy. For example, given Nova Scotia's declining population, the quality of our universities was noted as important in continuing to attract international students.
- 4.3 The sustainability of funding to universities is expected to become an increasing challenge for the province. During 2014-15, \$4.2 million in emergency funding was given to some universities with financial issues. The Department of Labour and Advanced Education predicts that without structural change, there will be a \$50 million operating deficit for the



university system by 2018-19. In spring 2015, the University Assistance Act was replaced by the Universities Accountability and Sustainability Act, which is intended to promote greater university accountability for government funding.

- 4.4 The province and universities (represented by the Council of Nova Scotia University Presidents) have had memorandums of understanding since 2004. The most recent agreement covered April 1, 2012 to March 31, 2015. One of the core objectives of the 2012-15 memorandum of understanding was to achieve a system-wide cost that is sustainable to the province. Specific objectives in the memorandum of understanding included: determining a new way to allocate the provincial operating grant; working together to reduce costs; and a review of tuition-related policies.

Audit Objectives and Scope

- 4.5 In summer 2015, we completed a performance audit of the Higher Education Branch of the Department of Labour and Advanced Education. The audit was conducted in accordance with sections 18 and 21 of the Auditor General Act and auditing standards of the Chartered Professional Accountants of Canada.
- 4.6 The purpose of the audit was to determine whether the Department of Labour and Advanced Education holds universities appropriately accountable for funding received and has processes to distribute and manage provincial funding to universities in a manner that helps achieve fiscal sustainability.
- 4.7 The objectives of the audit were to determine whether the Department of Labour and Advanced Education:
- has effective processes to monitor and evaluate financial performance of universities receiving grant funding to assess sustainability risks in the system and to promote accountability and efficient university operations;
 - has a clear framework to determine whether to provide additional assistance to universities with financial health issues;
 - is allocating funding in a logical and systematic manner;
 - is distributing funding to universities in accordance with agreements and policies; and
 - has effectively implemented its agreements with universities.



- 4.8 Generally accepted criteria consistent with the objectives of the audit did not exist. Audit criteria were developed specifically for this engagement by our Office based on similar audits by other legislative audit offices and information collected during planning. Criteria were accepted as appropriate by senior management of the Department.
- 4.9 Our audit approach included interviews with Department of Labour and Advanced Education management and staff; review of relevant policies, guidelines and processes; examination of agreements, minutes, reports and other documentation; and testing grant calculations. Our audit period was April 1, 2012 to March 31, 2015, corresponding to the last signed memorandum of understanding with universities.
- 4.10 The audit focused on operating grants to universities, emergency funding, and the 2012-15 memorandum of understanding. Bursaries and funding provided to universities through other provincial government departments were not included in the scope of this engagement. Contributions to the Nova Scotia Community College were also not examined.

Significant Audit Observations

Sustainability of the University System

Conclusions and summary of observations

While the province and universities have stated a vision for the university system in Nova Scotia, there is no common strategic direction to address concerns about the sustainability of the system. The Department of Labour and Advanced Education has no regular processes to monitor and evaluate university financial performance and health. There are no standard university financial reporting requirements. In addition to the lack of financial monitoring, most funding to universities is provided without any accountability back to the province. Department management said emergency funding will not be provided in the future. New legislation provides a framework for universities experiencing financial problems, but this framework has not yet been needed.

► No overall direction to achieve accountability and sustainability for the university system

- 4.11 *Accountability and long-term sustainability* – The 2012-15 memorandum of understanding committed the province and universities to engage in “... collaborative effort to ensure that the university system operates as a high quality, sustainable and accessible system, able to meet the changing needs of Nova Scotians over the coming 5 to 10 years.” The parties saw



the need for a vision for the university system. A vision statement was finalized in 2013. In 2014, a discussion paper on the need for change in the post-secondary education system was written. However, in late 2014, the province and universities began a public consultation process to get views from stakeholders on the future of the university system in Nova Scotia.

- 4.12 Although this work has not provided an overall direction for achieving accountability and long-term sustainability, initiatives to support the 2012-15 memorandum of understanding have been undertaken. Agreements with each university outline commitments to work together to reduce costs, streamline programming, and align the university with the province's economic goals. Specific memorandum of understanding objectives and agreements with universities are addressed later in this chapter.
- 4.13 Department management told us the province's decision to no longer provide emergency funding to universities and the new Accountability and Sustainability Act are components of the university system's strategic direction going forward. However, this does not necessarily address the sustainability of the university system.
- 4.14 The strategic direction should include guidance on how funding is allocated among universities. As discussed later in this chapter, the current funding allocation is historically based, and despite management's concerns, changes have not been made.

Recommendation 4.1

The Department of Labour and Advanced Education, in consultation with stakeholders, should put in place a strategic direction for Nova Scotia's university system which addresses its sustainability concerns.

Department of Labour and Advanced Education Response: The Department agrees with and intends to implement this recommendation. A strategic direction statement will be developed by March 31, 2016. The Higher Education Branch internal vision paper, as well as a report from the stakeholder consultations in 2014, will inform the core direction for universities – financial sustainability and linkage to the economic development priorities of the province. Through the new Universities Accountability and Sustainability Act and a standardized public financial reporting process, a new level of financial accountability is being put in place to allow government to monitor the financial health of the universities. Through the work of the Innovation Team and its five subcommittees, the universities are making significant progress in supporting provincial economic development priorities and the goals of the oneNS report. The 2015-2019 MOU and the 2016 bilateral agreements with each university will further set direction for the universities.



Measures to track improvements in efficiency and sustainability inadequate

- 4.15 *Measuring efficiency and financial sustainability* – The 2012-15 memorandum of understanding called for the province and universities to work together to achieve improvements in efficiency and financial sustainability across the system. Four measures were established and reported on annually. These were very high level, such as changes in total system expenditures and tuition revenue. There were no performance targets, and no supporting analysis comparing results to expectations. Without appropriate performance measures, or a clear understanding of how efficiency and financial sustainability should be assessed, the effectiveness of specific activities undertaken may not be known and improvement not achieved.

Recommendation 4.2

The Department of Labour and Advanced Education should put in place specific, measurable, achievable, relevant, and time-bound goals for improvements in efficiency and financial sustainability of the university system.

Department of Labour and Advanced Education Response: The Department agrees with and intends to implement this recommendation. SMART goals will be included in the 2015-2019 MOU and in the new bilateral agreements to be developed for 2016. With the statement that there will be no new emergency funding for universities as of April 1, 2015, a very clearly defined goal has been set for the universities to become sustainable. The new Universities Accountability and Sustainability Act calls for the universities to be held accountable to specific outcome measures supporting key policy directions of the province. These will be incorporated into the 2016-2019 bilateral agreements. By achieving these outcomes, universities will be in balanced budget positions and will be promoting the economic development of the province.

No accountability for funding or monitoring of university financial health and performance

- 4.16 *University financial monitoring* – The annual operating grant to universities is a large portion of total university revenues. However, the province has not established any accountability for this funding. Universities are not required to report financial performance to the Department. Labour and Advanced Education management does not regularly review and consider university financial health and performance. The Department asked for basic financial information from each university in 2013, but did not clearly define its information needs. We identified issues with the completeness and accuracy of the information provided. For example, one university did not provide any balance sheet data and other universities reported information which could not be linked to their audited financial statements. Once the information was submitted, Labour and Advanced Education did not perform a detailed analysis.



- 4.17 In 2014, an external consultant was hired to complete a financial review of two universities in response to requests for extra funding.
- 4.18 The Department has generally relied on universities to identify financial issues. Regular financial analysis and looking at trends would help the Department assess potential problems and promote accountability and efficient university operations. During the audit, Department management worked with universities to develop standardized public financial reporting. This was part of the 2012-15 memorandum of understanding but was not completed and implemented.
- 4.19 Universities must operate in a sustainable manner to ensure funding is spent with due regard for economy and efficiency. The Universities Accountability and Sustainability Act, proclaimed in 2015, indicates the province may require evidence of a university's financial sustainability before providing the full amount of operating funding. However, this process has not yet been defined.

Recommendation 4.3

The Department of Labour and Advanced Education should, in consultation with partners, develop financial health and performance measures for universities. Results and trends should be analyzed in an effective and timely manner, with appropriate action taken when necessary.

Department of Labour and Advanced Education Response: The Department agrees with and intends to implement this recommendation. This will be implemented through the standardized public financial reporting initiative under the 2012-15 MOU. Universities are currently inputting information in to this template. A five year history of data will be collected to begin the process, then annual data on a go forward basis. Additionally, multi-year projections of expenditures, revenues and enrolments will be collected. The process is underway to establish a financial analyst position within the Universities and Colleges Division to help evaluate and analyze the data to enable the Department to react to any concerns identified.

- 4.20 *Special-purpose funding* – In addition to the operating grant, some universities receive funding for specific reasons and most of these agreements have no funding conditions. Department management told us there is no mechanism to verify that funding is used for intended purposes.

Recommendation 4.4

The Department of Labour and Advanced Education should include reporting requirements in special-purpose funding agreements. Monitoring should be completed to ensure the objectives of these agreements are met.



Department of Labour and Advanced Education Response: The Department agrees with and intends to implement this recommendation. In 2014-15, accountability requirements were set for special nursing education funding. In 2015-16, accountability requirements will be tied to any other special funding that is released.

► Emergency funding framework existed

4.21 *Emergency funding* – A framework for dealing with emergency funding should clearly state the province’s expectations and ensure future sustainability planning. In the past, when universities asked for additional funding, the Department reviewed the requests and made a recommendation to the Minister. This has generally been a consistent practice; however, the process is not documented. More recently, the province’s policy was updated to state that emergency operating funding would not be given if other funding sources have not been exhausted. This may include selling investments, obtaining loans, or using university funds set aside for other purposes. When emergency funding was provided, the Department received information on steps the university would take to improve its financial situation.

4.22 The new Universities Accountability and Sustainability Act includes a process to be followed by universities experiencing financial problems, but this has not yet been used by a university. Management told us that emergency funding requests will no longer be accepted; the Department will follow the new Act’s framework.

Distribution of University Funding

Conclusions and summary of observations

The process to calculate and allocate provincial operating funding to universities is based on a historical approach. Originally developed as a funding formula to calculate the appropriate level of provincial funding for universities, the formula has been used to allocate available provincial funding. It is based primarily on student enrolment. This can vary from year to year; however, the enrolment numbers were not regularly updated. Although the 2012-15 memorandum of understanding identified the need for an updated allocation method, no changes were made.

► Funding allocation method is historical and has not been updated

4.23 *Allocation and payment of funding* – The Department of Labour and Advanced Education has a documented process to determine and allocate the provincial operating grants to universities. University funding distributed in 2013-14 and 2014-15 was calculated and paid in accordance with this process.



- 4.24 While the process was followed, the method used to allocate the provincial operating grant is based on a historical approach. The allocation formula was developed in 1997-98 to determine the appropriate level of government funding for universities. It is based mainly on the number of students and the cost of providing university courses. However, the funding calculated based on this formula exceeded what the province was able to pay. The formula was instead used as the basis to allocate the available provincial funding.
- 4.25 Although the formula is based on student enrolment, which changes over time, the formula was not regularly updated with this information. In 2007-08, the Department planned to update enrolment numbers. This would have resulted in a significant funding decrease for some universities. To lessen the impact, changes were made over a three-year period; however, the allocation never fully reflected the updated enrolment numbers.
- 4.26 Department management told us they have concerns with the current allocation formula because it is based mainly on factors that change, such as enrolment. They said changes to the number of students may not result in operating cost increases or decreases for universities. Since total funding is fixed, universities with smaller enrolment increases than others may see funding fall due to the changed allocation.
- 4.27 *Memorandum of understanding* – The 2012-15 memorandum of understanding committed to developing a new formula to allocate provincial funding. Department and university representatives formed a working group to review and recommend changes to the provincial operating grant allocation formula. However, no changes were made. The 2010-11 funding allocations were carried forward through the 2012-15 memorandum of understanding. A new allocation method is currently under development.

Recommendation 4.5

The Department of Labour and Advanced Education should develop and implement a new funding allocation method without further delay.

Department of Labour and Advanced Education Response: The Department agrees with this recommendation. Changes to the allocation mechanism will result in some universities receiving more funding and others receiving less. The implications for those universities receiving less funding are very serious. The universities have asked for the new allocation formula to be implemented in 2017-18 to allow time to deal with structural issues before the added complication of dealing with a forced change in operating grant. Implementation of the recommendation is underway.



Implementation of Agreements with Universities

Conclusions and summary of observations

While some objectives of the 2012-15 memorandum of understanding were met, significant change in key areas was not achieved. Working groups created to address issues did not meet their objectives. The Department has agreements with each university to support the memorandum of understanding, but many objectives identified are not specific and there are no reporting requirements outlined in these agreements. Since 2012, the province has provided \$25 million in funding to universities outside of the annual operating grant to obtain ongoing cost savings, but these investments have not produced the desired savings.

4.28 *Background* – The 2012-15 memorandum of understanding established a partnership between the province and universities, with a goal of obtaining a sustainable cost structure based on what the province can afford, while also achieving excellence in teaching and research, and a fair and competitive tuition system. The province and universities agreed to work together to achieve significant change in areas such as tuition policies, access and affordability of education, and quality assurance.

► Limited success in implementing memorandum of understanding objectives

4.29 *Partnership committee and working groups* – To guide the implementation of the memorandum of understanding, a partnership committee of university presidents and provincial deputy ministers was formed. A work plan was approved and working groups, made up of university officials, Labour and Advanced Education staff, and student representatives, were created. Under the memorandum of understanding, these committees and working groups provide a venue for university stakeholders to meet to discuss challenges facing the system and work towards improvements. The partnership committee outlines work completed during the year in reports to the province.

4.30 *Areas implemented* – Areas of the memorandum of understanding that were successfully implemented include: the establishment of a tuition policy for 2015-16 to 2018-19, and an agreement to increase the operating grant to universities by one percent each year for the next four years to provide a level of stability and predictability to university funding.

4.31 The memorandum of understanding also called for parties to work towards enhancing research and development and contributions to economic development. Work to date included: initiatives at Nova Scotia universities which bring together students and advisors to take business concepts from the idea phase to execution; and the establishment of graduate scholarships



to support research in areas identified as key to Nova Scotia's social and economic development.

- 4.32 Despite achieving some of the objectives of the memorandum of understanding, our work also identified areas in which objectives were not met.
- 4.33 *Memorandum of understanding governance* – There was limited success in achieving the objectives assigned to the various working groups during the 2012 to 2015 memorandum. Deliverables were completed late or not at all.
- 4.34 Established in late 2013, the access and affordability working group was to develop a policy to increase the number of Nova Scotians attending university from under-represented population groups. A final report was due March 2014 but was not submitted until March 2015. Department management told us they believe the working group's plans were too ambitious. In addition, the lack of quality data on under-represented groups and indecision about which groups to include was evident in the group's work. The final report provided definitions for access and affordability, and a list of under-represented groups to consider. It recommended continuing the work in the next memorandum of understanding. While the definitions and a list of potential under-represented groups was fundamental work, we expected it to be completed sooner.
- 4.35 A quality working group was formed in July 2012 to identify key quality performance indicators for implementation by the end of 2012. A final report was not completed until August 2014. While it did identify seven quality measures, it did not include a reporting format, data to be collected, or how to ensure university compliance with the process. These were all identified working group objectives. Management also told us the measures would likely not be implemented until April 2016.
- 4.36 A third working group was created to develop a new formula to allocate provincial funding to universities. As noted earlier in the chapter, this was not achieved and management said a new allocation method is currently under development.
- 4.37 While we recognize the value of the work completed to date under the 2012-15 memorandum of understanding, the Department and universities agreed to work together to make significant changes. They have not met their goals in certain areas. In some aspects, such as the development of a new funding allocation formula, addressing the issue has been delayed, despite knowing there are issues that need attention.



Recommendation 4.6

The Department Labour and Advanced Education should establish reasonable expectations for future memorandum of understanding working groups and ensure goals are specific, measurable, attainable, realistic, and time-bound.

Department of Labour and Advanced Education Response: The Department agrees with and intends to implement this recommendation. The 2015-2019 MOU, the 2016 bilateral agreements, deliverables for the Innovation Committees and any other agreements and MOUs will contain SMART goals to ensure absolute clarity around the deliverables.

- 4.38 *Excellence and Innovation Fund* – The memorandum of understanding established an Excellence and Innovation Fund of \$25 million to provide funding to universities for projects intended to save an equal amount in costs of the university system on an ongoing basis. There were four rounds of funding involving 50 projects. Project criteria included the project’s innovation, collaborative nature, and payback period. In the fourth round of funding, the criteria changed to consider projects which supported innovation and collaboration, and also linked to the province’s economic and social goals.
- 4.39 We reviewed ten projects and found all ten projects met the funding criteria. Of the eight projects with completed status reports, two did not generate the expected level of cost savings or revenue, while three did not estimate expected cost savings or revenue. Since the reported results did not meet expectations, it appears the goal of saving \$25 million on a sustainable basis was not achieved. Also, it is not clear whether this goal was ever attainable.

► Agreements with universities lack specific objectives

- 4.40 The province has agreements with individual universities outlining key activities the university agrees to undertake between October 1, 2014 and March 31, 2016. These agreements are meant to support the work done through the 2012-15 memorandum of understanding, and contribute to a sustainable university system. For example, universities and the province agreed to work together on improving programs such as engineering, education, and nursing. However, there is no identified reporting process for these agreements and many activities do not include concrete actions. For example, one agreement requires the university to explore the potential to create a science and innovation space, with no further details on how to determine success. In addition, no timeframes are attached to the activities so it is unclear whether they are to be completed during the agreement period or in future periods. While promoting collaboration is important, without clear objectives, it is difficult to assess effort and progress of these agreements.



Recommendation 4.7

The Department of Labour and Advanced Education should identify specific outcomes, including timeframes and reporting processes, in future agreements with universities.

Department of Labour and Advanced Education Response: The Department agrees with and intends to implement this recommendation. Currently, staff monitors progress on bilateral initiatives through frequent interaction with the universities, including meetings between the Presidents and the Minister, Deputy Minister and the Senior Executive Director of Higher Education. The next version of bilateral agreements, due in April 2016, will contain specific outcome measures that link to the university's academic goals, the commitment to sustainability, and that support the social and economic priorities of the province. The Department will ensure these measures have specific timeframes and reporting outcomes.



Department of Labour and Advanced Education: Additional Comments

The Department values this performance audit of funding to universities. The Department agrees with, and will implement, all recommendations contained in the report. Well before this audit got underway in the summer of 2015, the Department had already taken steps to implement many of the recommendations that appear in the report, including the development of a vision for the university sector and the modelling of alternative funding allocation formulas. Following a public consultation process in the fall of 2014, clear direction regarding a vision of financially sustainable universities was delivered to the Presidents by the Premier during a strategic planning session in December 2014. An Innovation Team was established in June 2014 with the presidents of the universities and NSCC, students, and key federal and provincial government staff to develop strategies to align the sector in advancing the economic development priorities of the province and the oneNS report. New legislation was drafted in the winter of 2015 to help ensure the accountability and sustainability of the universities. This became law in May, 2015.