

**RECENT FEDERAL INVESTMENTS IN  
POST-SECONDARY EDUCATION AND TRAINING**

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## RECENT FEDERAL INVESTMENTS IN POST-SECONDARY EDUCATION AND TRAINING

### INTRODUCTION

Although Canada has one of the most highly educated populations in the world,<sup>(1)</sup> many observers have expressed the view that higher education and training in this country must be improved if we hope to enhance our long-term economic prospects and bolster the welfare of Canadians. In 2000, a federal Expert Panel on Skills recommended that Canada boost the capacity of its universities and colleges to do high-quality basic and applied research, improve the capacity of post-secondary institutions to meet the skill needs of students and employers, improve the capacity to upgrade skills of the existing workforce and make lifelong learning accessible to all Canadians.<sup>(2)</sup> During the national summit on innovation and learning in November 2002, participants recommended that financial assistance be re-adjusted to meet the changing needs of post-secondary students and that capacity within Canada's post-secondary education (PSE) system be increased. In addition, it was recommended that incentives and programs for individuals and organizations should be provided to bolster sector-based training, including apprenticeship training.<sup>(3)</sup>

By the latter half of the 1990s, the federal government's fiscal position had greatly improved, thus paving the way for policy-makers to refocus attention on the widely held view that a skilled workforce is a necessary ingredient for increased productivity and living

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(1) As of 2003, of all OECD countries Canada had the highest percentage of individuals aged 25 to 64 who had completed tertiary education (i.e., post-secondary). Over 50% of its population aged 25 to 34 has completed either college or university (see OECD, *Education at a Glance: OECD Indicators 2005*, 2005).

(2) Prime Minister's Advisory Council on Science and Technology, *Stepping Up: Skills and Opportunities in the Knowledge Economy*, Report of the Expert Panel on Skills, 2000.

(3) Government of Canada, *National Summit on Innovation and Learning: Summary*, Ottawa, 2002.

standards. Successive budgets since 1998 have provided additional, sometimes substantial, resources for higher education and training.<sup>(4)</sup>

This paper provides an overview of recent federal spending on initiatives designed to promote investments in higher education and training, including direct and indirect financial support to individuals, and spending on infrastructure and capacity-building within Canada's higher learning community.<sup>(5)</sup> The data presented here show that the vast majority of federal support that has been allocated to higher learning since the Canadian Opportunities Strategy (i.e., the February 1998 budget) has been directed at formal education, most notably universities. In 2004-2005, the federal government spent more than \$12 billion on PSE and training, roughly 60% more than in 1997-1998. During this period, spending on PSE and training grew at an average annual rate of roughly 8.5%, approximately one percentage point above the rate of growth in federal budgetary program spending.

## **STUDENT BORROWING AND DEBT REDUCTION ASSISTANCE**

In an effort to correct capital market imperfections and capture the social benefits of investments in PSE, the federal government has, for several decades, provided financing to students.<sup>(6)</sup> The best known and most widely used federal initiative in this regard is the Canada Student Loans Program (CSLP).

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(4) See Appendix 1 for a detailed inventory of budget measures during 1996-2006 in support of higher education and training.

(5) While the authors have attempted to be as comprehensive as possible in this paper, in some instances expenditure data were limited or not available. For example, although the Department of National Defence (DND) delivers a wide range of military and civilian learning and professional development initiatives (e.g., Canadian Defence Academy, Royal Military College, Defence Learning Network, etc.), information on expenditures related to these measures is not readily available. Nor was it possible to identify expenditures on children of deceased veterans who are entitled to education assistance under the *Children of Deceased Veterans Education Assistance Act*. In addition, this paper does not include expenditures on federal public service employee training, development and learning opportunities (including language training).

(6) In the absence of public sector intervention, most students would be unable to borrow money to finance their investments in PSE, as private sector lending institutions will not accept future earnings as collateral.

### **A. Canada Student Loans Program<sup>(7)</sup>**

Through direct lending activities,<sup>(8)</sup> the federal government currently provides loans to full-time and part-time students who can demonstrate financial need in all provinces and territories, with the exception of Quebec, the Northwest Territories and Nunavut.<sup>(9)</sup> Beginning in the 2005-2006 loan year (i.e., August 2005 to July 2006), the federal government will lend up to 60% of a full-time student's assessed need to a maximum loan of \$210 per week of study. This represents an increase of \$1,530 in borrowing capacity for a 34-week academic year, compared to the loan limit that existed prior to the 2004 budget. Other changes implemented in the 2005-2006 loan year entail the inclusion of computer-related costs as part of the \$3,000 book and supplies allowance, and a reduction in the parental contribution expected from middle-income families. The latter change provides greater access to student loans for individuals from families with incomes between \$60,000 and \$100,000.<sup>(10)</sup>

Additional borrowing is available through provincial/territorial loans programs. Currently, four jurisdictions – Newfoundland and Labrador, New Brunswick, Ontario and Saskatchewan – have harmonized their student loans programs with the CSLP, essentially creating a “one student – one loan” system.

Provided a student is enrolled in full-time studies, taxpayers pay the interest on Canada Student Loans. Assuming continued eligibility, full-time students are entitled to receive financial assistance for a lifetime maximum of 340 weeks of PSE (520 weeks for students with permanent disabilities). This may be extended by an additional 60 weeks for those enrolled in doctoral studies. Part-time students, on the other hand, are allowed to borrow a cumulative amount of \$4,000 (principal and interest); they are responsible for paying the interest on their loans (the in-study interest subsidy). Both full-time and part-time students must begin to repay their loans six months after the date when they cease to be students.

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(7) For more information see: Tim Riordan Raaflaub, *Canada Student Loans Program*, PRB 03-43E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, revised 11 January 2006.

(8) The CSLP is currently administered by two service providers – Edulinx and BDP Business Data Services Ltd. – which operate under the name of the National Student Loans Service Centre. The CSLP loan portfolio is divided between public and private sector educational institutions so as to permit each service provider to tailor its services to better meet clients' needs. Edulinx serves student borrowers attending public institutions.

(9) The independent student loans programs operated by Quebec, the Northwest Territories and Nunavut receive annual compensatory funding from the federal government.

(10) Office of the Superintendent of Financial Institutions Canada, *Actuarial Report on the Canada Student Loans Program as at 31 July 2004, 2005*, p. 44.

In the 2003-2004 loan year (i.e., August 2003 to July 2004), the latest year for which data are readily available, roughly \$1.65 billion was lent to full- and part-time students under the CSLP. In total, there were 343,000 student borrowers under the program that year, of which fewer than 1% (2,797 students) were enrolled in part-time studies. The overall number of CSLP borrowers in 2003-2004 was similar to that in 1997-1998, although there was some variability during the intervening period, as shown in Table 1.

In the 2003-2004 fiscal year, the interest on CSLP loans cost taxpayers \$178.4 million. Loan administration costs in the same year for the consolidated CSLP<sup>(11)</sup> were roughly \$79 million, while the bad debt expense was \$193.3 million. Compensatory payments to non-participating provinces and territories in 2003-2004 were \$244.8 million.<sup>(12)</sup>

**Table 1**  
**Consolidated Canada Student Loans Program Expenditures,**  
**Selected Years (\$ millions)**

	1997-1998	1998-1999	2002-2003	2003-2004
Number of Full-time Student Borrowers	350,774	358,931	328,991	340,203
Number of Part-time Student Borrowers	-	3,036	2,772	2,797
Value of Loans	\$1,567.9	\$1,557.2	\$1,549.2	\$1,647.7
Loan Administration Expenses <sup>1</sup>	\$93.1	\$110.4	\$91.2	\$79.2
Government Support Expenses <sup>2</sup>	\$560.6	\$429.3	\$528.9	\$568.2
Payments to Non-participating Provinces and Territories	\$74.9	\$160.9	\$76.0	\$244.8

- 1 Includes collection costs, risk premium, put-back and administration fees to provinces and territories.
- 2 Includes in-study interest subsidy, interest relief, debt reduction in repayment, claim payments, loan forgiveness and bad debt expenses.

Source: Human Resources Development Canada, *Performance Report, 1997-1998*, 1998; Human Resources Development Canada, *Review of the Government of Canada's Student Financial Assistance Programs, 1999-2000*, 2002; Human Resources and Skills Development Canada, *Canada Student Loans Program Annual Report, 2002-2003*, 2004; Human Resources and Skills Development Canada, *Report on Plans and Priorities, 2005-2006*, 2005.

(11) Prior to August 1995, student loans were guaranteed by the Government of Canada and were provided through financial institutions. Between August 1995 and July 2000, student loans continued to be disbursed and serviced by financial institutions, but were not guaranteed by the Government of Canada. Instead, lenders were paid a risk premium equal to 5% of the value of loans consolidated in each loan year. Since August 2000, the Government of Canada has issued loans directly and service providers have been contracted to administer the CSLP.

(12) Human Resources and Skills Development, *Report on Plans and Priorities, 2005-2006*, 2005, p. 121.



## 1. Student Loan Repayment Assistance

One of the most publicized student financing issues of late concerns the rising levels of student debt. According to Statistics Canada, graduates with bachelor degrees in 2000 who had student loans owed, on average, 76% more than their 1990 counterparts after adjusting for inflation. A similar increase in student debt over the same period was found for college graduates.<sup>(13)</sup> Some analysts see rising student debt as an access issue, especially in terms of students from low-income families.

As noted above, both full-time and part-time students must begin to repay their loans under the CSLP six months after they cease to be students. Although no repayment is required during this “grace” period, interest begins to accrue on the loan. In addition to a tax credit on interest payments made on federal and provincial student loans (discussed below), the federal government provides interest relief and debt reduction for individuals who experience financial problems repaying their student loans. Interest relief provides eligible low-income borrowers<sup>(14)</sup> with short-term assistance with loan repayment by waiving interest and principal payments for periods of six months at a time. Borrowers are entitled to up to 30 months of interest relief during their loan repayment period. If this entitlement is exhausted, interest relief eligibility may be extended for an additional 24 months, provided the period covered falls within the first five years of leaving school. In the 2002-2003 loan year, the latest year for which data are readily available, 128,235 individuals qualified for interest relief at a cost of \$77.2 million.<sup>(15)</sup>

Debt reduction in repayment was introduced under the Canadian Opportunities Strategy to help low-income borrowers who have exhausted their interest relief assistance, but who continue to face long-term financial difficulties repaying their Canada Student Loan. Since its inception, the level of debt reduction under this measure has been enhanced; as of August 2005, eligible borrowers are entitled to a lifetime maximum debt reduction of \$26,000 available in three installments – the first two installments provide a reduction of up to \$10,000 each, while the third installment provides up to \$6,000 of debt relief. In the 2002-2003 loan year,

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(13) M. Allen and C. Vaillancourt, *Class of 2000: Profile of post-secondary graduates and student debt*, Statistics Canada, 2004, p. 16.

(14) Interest relief eligibility is means-tested and depends on monthly family income, number of dependants and total combined monthly payments on all student loans. The most recent increase in income eligibility thresholds was announced in the 2004 budget, which increased income thresholds by 5%.

(15) Human Resources and Skills Development Canada, *Canada Student Loans Program Annual Report 2002-2003*, 2004, p. 33.

1,523 individuals benefited from debt reduction in repayment at a cost of \$8.6 million (see Table 1).<sup>(16)</sup>

### **B. Lifelong Learning Plans**

The problem of inadequate access to programs that facilitate investments in human capital is not entirely addressed through the CSLP, as many individuals, particularly those already in the labour market, may not have access to this program. Overcoming financial barriers to support continuous learning was given a boost in the 1998 budget when the government announced that it would implement tax-free Registered Retirement Savings Plan (RRSP) withdrawals to encourage lifelong learning. Under this self-lending scheme, eligible individuals are allowed to withdraw up to \$10,000 in a calendar year from their RRSP to finance full-time education or training.<sup>(17)</sup> The maximum amount withdrawn, at any point in time, may not exceed \$20,000. Repayments must begin no later than the fifth year after the first withdrawal and be fully repaid over a period not exceeding 10 years.

According to the data presented in Table 2, some 12,370 individuals established a lifelong learning plan in 2004, up 12% from two years earlier.<sup>(18)</sup> In 2004, individuals withdrew \$70.9 million from their RRSPs to finance their investments in continuous learning, an average withdrawal of some \$5,733.

**Table 2**  
**Lifelong Learning Plan Participants and Withdrawals, 2002-2004**

<b>Year</b>	<b>Number of Participants</b>	<b>Value of RRSP Withdrawals (\$ thousands)</b>	<b>Average Withdrawal</b>
2002	11,030	\$60,359	\$5,472
2003	12,100	\$67,670	\$5,593
2004	12,370	\$70,916	\$5,733

Source: Canada Revenue Agency, unpublished.

(16) *Ibid.*, p. 34.

(17) While RRSP funds may also be used to finance full-time education or training of a contributor's spouse or common-law partner, funds may not be used to finance their children's education or training. To qualify, education or training must last at least three months and require a student to spend at least 10 hours per week on courses or work in the program. Students who meet certain disability conditions are permitted to be enrolled on a part-time basis.

(18) Although this initiative became available in 1999, the Canada Revenue Agency maintains that data for the period 1999 to 2001 are not readily available.

## GRANTS, SCHOLARSHIPS AND OTHER INCOME SUPPORT PAYMENTS

In addition to repayable student loans, Canadian taxpayers also fund a number of federal measures that provide non-repayable financial assistance in the form of grants and scholarships to PSE students, as well as other direct transfers to eligible unemployed individuals and workers who participate in approved training.

### A. Canada Study Grants

Special Opportunity Grants were renamed Canada Study Grants (CSGs) and enhanced in the 1998 budget. CSGs are non-repayable assistance provided to four types of Canada Student Loans borrowers: (1) students with dependants (up to \$3,120 for full-time students and \$1,920 for part-time students); (2) students with permanent disabilities, so that they can meet disability-related educational expenses (up to \$8,000 annually); (3) high-need part-time students (up to \$1,200 per year); and (4) women who are pursuing certain doctoral studies (up to \$3,000 per year for a period of up to three years). CSGs do not have to be repaid unless a student withdraws or leaves school during a period of study.

In the 2002-2003 loan year, the latest year for which information is available, about 17% of Canada Student Loans borrowers received a CSG. Of these recipients, more than 78% were students with dependants, about 11% were students with permanent disabilities, some 8% were high-need, part-time students, roughly 2% were high-need students with permanent disabilities<sup>(19)</sup> and fewer than 1% were women pursuing doctoral studies.<sup>(20)</sup>

Compared to spending on Special Opportunity Grants in 1997-1998, expenditures on CSGs had increased more than seven-fold by 1998-1999. Much of this growth was attributed to increased assistance for students with dependants. As well, the maximum grant available to students with permanent disabilities was raised from \$3,000 to \$5,000, and the regulations were amended to provide flexibility for provinces to award CSGs to more students in need. It should also be noted that total CSG allocations in 1998-1999 and 1999-2000 exceeded the amount actually disbursed by provincial authorities. While these excess allocations were eventually disbursed in subsequent fiscal years, this situation served to lower future federal allocations for CSG payments below what would otherwise have been the case.

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(19) Canada Study Grants for High-need Students with Permanent Disabilities were replaced with a Canada Access Grant for Students with Permanent Disabilities as of 1 August 2005.

(20) Human Resources and Skills Development Canada, *Canada Student Loans Program Annual Report 2002-2003*, 2004, pp. 20-22,  
[http://www.hrsdc.gc.ca/en/hip/cslp/publications/12\\_pu\\_AnnualReport20022003.pdf](http://www.hrsdc.gc.ca/en/hip/cslp/publications/12_pu_AnnualReport20022003.pdf).

**Table 3**  
**Spending on Canada Study Grants, Selected Years (\$ millions)<sup>1</sup>**

1997-1998	1998-1999	2000-2001	2001-2002	2002-2003	2003-3004	2004-2005
\$14.8 <sup>2</sup>	\$108.8	\$56.6	\$69.7	\$54.5	\$66.8	\$64.5

1 While this table includes spending on Canada Study Grants for High-need Students with Permanent Disabilities (up to \$2,000 annually as of 1 August 2002), it should be noted that this type of CSG was replaced by Canada Access Grants for Students with Permanent Disabilities effective 1 August 2005.

2 Refers to Special Opportunity Grants

Source: Human Resources and Skills Development Canada, Performance Reports, 1997-1998 to 2004-2005.

### **B. Canada Access Grants**

The March 2004 budget introduced two new grants, called Canada Access Grants. One of these, known as the Canada Access Grant for Students from Low-Income Families, provides non-repayable financial assistance up to one-half of tuition costs to a maximum of \$3,000, but not exceeding the student's assessed financial need. To receive this grant, an individual must be a dependent student, eligible for a full-time Canada Student Loan, and be a first-time student enrolled in year one of at least a two-year program at a designated PSE institution. In addition, the student's family net income must fall within the range of entitlement to the National Child Benefit supplement.

The other grant, called the Canada Access Grant for Students with Permanent Disabilities, provides up to \$2,000 per loan year to qualifying students who are eligible for a Canada Student Loan and who have demonstrated that they cannot financially cover their education and living expenses.

According to the 2004 budget, the combined cost of Canada Access Grants for Students from Low-Income Families and Students with Permanent Disabilities was estimated to be approximately \$45 million in 2005-2006.<sup>(21)</sup>

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(21) Government of Canada, *Learning: Cornerstone of Canada's Economic and Social Progress* (Budget 2004), 23 March 2004, p. 6.

### C. Canada Millennium Scholarship Foundation

The Canada Millennium Scholarship Foundation (CMSF) was established in 1998 as an independent organization (like the Canada Foundation for Innovation, discussed below). In that year, the federal government provided the Foundation with a lump-sum allocation of \$2.5 billion, which created a limited term investment pool to be disbursed over a period of 10 years. Disbursements began in January 2000.

The CMSF administers two programs in cooperation with provincial and territorial governments: the Millennium Bursary Program and the Millennium Excellence Program.<sup>(22)</sup> Through the former, the CMSF awards bursaries averaging \$3,000 to full-time undergraduate students who have demonstrated a high financial need and who are pursuing post-secondary education at an institution recognized by the Canada Student Loans Program.<sup>(23)</sup> Through the latter, the CMSF provides two types of awards – the Millennium Entrance Awards and the National In-course Awards – valued at between \$4,000 and \$5,000 annually.<sup>(24)</sup> Eligible students can receive up to \$22,500 from the CMSF for a period of up to 32 months of full-time study.<sup>(25)</sup>

As shown in Table 4, the total cumulative value of bursaries and awards disbursed as of 31 December 2004 was \$1,455.9 million. Of this, more than 95% was spent on millennium bursaries.<sup>(26)</sup>

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(22) In 2004, the CMSF announced the creation of a new \$200-million pilot project to provide up to an additional \$50 million yearly in need-based assistance for students from low-income families. This initiative is financed through savings made on the Foundation's operating costs and interest earned from its original \$2.5-billion endowment; see Canada Millennium Scholarship Foundation, "Clarification concerning a new low-income access bursary from the Canada Millennium Scholarship Foundation," News release, Montréal, 21 April 2005,

[http://www.millenniumscholarships.ca/images/news/clarification\\_release\\_en.pdf](http://www.millenniumscholarships.ca/images/news/clarification_release_en.pdf).

(23) Bursaries range from \$1,000 to \$4,500. In some provinces, millennium bursaries serve to reduce student debt, while in other provinces, and all of the territories, millennium bursaries provide additional money to students to pay for their studies; see Canada Millennium Scholarship Foundation, *Impact*, 2004 Annual Report, p. 8,

[http://www.millenniumscholarships.ca/uploadfiles/documents/annual\\_reports/2004\\_ar\\_e.pdf](http://www.millenniumscholarships.ca/uploadfiles/documents/annual_reports/2004_ar_e.pdf).

(24) Entrance awards are divided in three categories: local awards (one-time award of \$4,000); provincial and territorial awards (\$4,000 renewable for up to three additional years); and national awards (\$5,000 renewable for up to three additional years). There are three types of in-course awards: \$5,000 scholarships renewable for one additional year during which the recipient must maintain a B+ grade point average (GPA); \$4,000 scholarships renewable for one additional year during which the recipient must maintain a B+ GPA; and one-year scholarships of up to \$4,000. See Canada Millennium Scholarship Foundation, *Millennium Excellence Award Program*,

<http://www.millenniumscholarships.ca/en/programs/MillenniumAward.asp>.

(25) Canada Millennium Scholarship Foundation, *2005 Millennium Excellence Awards: Types of Awards*, <http://www.millenniumscholarships.ca/en/recipients/crit.asp>.

(26) Canada Millennium Scholarship Foundation, *Impact* (2004), p. 16.

**Table 4**  
**Canada Millennium Scholarship Foundation Spending on Bursaries**  
**and Excellence Awards, 1999-2004 (\$ millions)<sup>1</sup>**

1999	2000	2001	2002	2003	2004
-	\$282.2	\$288.2	\$286.9	\$297.7	\$300.9

1 Spending refers to calendar years and excludes operating costs.

Source: Canada Millennium Scholarship Foundation, selected Annual Reports.

#### **D. Canada Graduate Scholarships**

The February 2003 federal budget announced the creation of the Canada Graduate Scholarships (CGS) program, designed to increase the supply of highly qualified personnel to meet the needs of the knowledge economy and to help renew faculty at Canadian universities.<sup>(27)</sup> When fully implemented in 2007-2008, this program will allocate \$105 million to support 2,000 masters students and 2,000 doctoral students each year. Students at the master's level can receive \$17,500 for one year, whereas students at the doctoral level can be awarded a scholarship of \$35,000 per year for three years.

CGSs are administered through the federal granting councils, and allocated in proportion to the distribution of the graduate student population within the disciplines governed by each (i.e., 60% goes to the Social Sciences and Humanities Research Council of Canada (SSHRC), 30% to the Natural Sciences and Engineering Research Council of Canada (NSERC), and 10% to the Canadian Institutes of Health Research (CIHR, formerly the Medical Research Council).<sup>(28)</sup> During the first two fiscal years of operation, more than \$75 million was spent on the CGS program. Planned spending on this initiative in 2005-2006 includes \$50.4 million to be channelled through SSHRC, \$24.9 million through NSERC and \$8.5 million through the CIHR.

(27) Natural Sciences and Engineering Research Council of Canada, *Details on Transfer Payments Programs for NSERC*, p. 3, [http://www.nserc.ca/about/transfer\\_payments\\_e.pdf](http://www.nserc.ca/about/transfer_payments_e.pdf).

(28) Canadian Federation for the Humanities and Social Sciences, *Bulletin on the Federal Budget*, February 2003.

**Table 5**  
**Canada Graduate Scholarships Expenditures, 2003-2004 and 2004-2005**  
**(\$ millions)**

	2003-2004	2004-2005
Social Sciences and Humanities Research Council of Canada	\$14.2	\$31.3
Natural Sciences and Engineering Research Council of Canada	\$7.2	\$15.9
Canadian Institutes of Health Research	\$1.9	\$5.2
Total	\$23.3	\$52.4

Source: Social Sciences and Humanities Research Council of Canada, Performance Reports, 2003-2004 and 2004-2005; Natural Sciences and Engineering Research Council of Canada, Performance Reports, 2003-2004 and 2004-2005; and Canadian Institutes of Health Research, Performance Reports, 2003-2004 and 2004-2005.

## **E. Post-secondary Education Support Programs for Aboriginal Students**

### **1. Indian and Northern Affairs Canada**

Indian and Northern Affairs Canada (INAC) offers financial assistance to promote access to post-secondary education among Inuit and First Nations students (Status Indians) residing on or off reserve. The Post-Secondary Student Support Program (PSSSP) and the University College Entrance Preparation Program (UCEP) provide assistance to cover the cost of tuition, books, travel and living expenses, when applicable.<sup>(29)</sup> The Indian Studies Support Program (ISSP) also provides support to post-secondary institutions for the development and delivery of special programs for Indians.<sup>(30)</sup> These three programs are almost 100% administered and delivered by First Nations bands whose councils define their own selection criteria and policies.<sup>(31)</sup> Status First Nations students<sup>(32)</sup> and Non-Status Aboriginal students who

(29) While amounts provided to students under these programs have been understood to be amounts received under a treaty and therefore tax-exempt, the federal government has recently adopted the position that PSE assistance is provided as a matter of social policy, not a treaty right. Hence, the tax-exempt status of this support is currently being assessed as part of a broader federal review of Aboriginal policy. Pending further clarification, the Canada Revenue Agency is treating INAC's PSE financial assistance as tax-exempt.

(30) While this particular measure is a capacity-building initiative and better situated elsewhere in this paper, the authors were unable to obtain separate expenditure data on INAC's PSE programs; see Indian and Northern Affairs Canada, *Post-Secondary Education Programs*, [http://www.ainc-inac.gc.ca/ps/edu/ense\\_e.html](http://www.ainc-inac.gc.ca/ps/edu/ense_e.html).

(31) R. A. Malatest & Associates Ltd., *Aboriginal Peoples and Post-Secondary Education: What Educators Have Learned*, prepared for the Canada Millennium Scholarship Foundation, January 2004, p. 19.

(32) Not all Status Aboriginal students can access funding under the PSSSP as resources are limited. Those who do get support under the PSSSP are usually not eligible for Canada Student Loans; see R. A. Malatest & Associates Ltd. (2004), pp. 19-21.

are not eligible for assistance under the PSSSP can apply for Canada Student Loans and associated provincial loans and grant programs.<sup>(33)</sup> As shown in Table 6, combined spending on the PSSSP, ISSP and UCEP has increased slightly since 1997-1998, and was estimated at \$305 million in 2004-2005.

**Table 6**  
**Expenditures by Indian and Northern Affairs Canada**  
**on Post-Secondary Education, Selected Years (\$ millions)**

1997-1998	1999-2000	2001-2002	2003-2004	2004-2005
\$274	\$280	\$285	\$304 <sup>1</sup>	\$305 <sup>1</sup>

1 Since 2003-2004, INAC's expenditures on PSE programs are available only in the department's Reports on Plans and Priorities (i.e., Part III Estimates), and are no longer identified in its Performance Reports. Hence, amounts for 2003-2004 and 2004-2005 relate to estimated spending.

Source: Indian and Northern Affairs Canada, Performance Reports and Reports on Plans and Priorities, selected years.

## **2. Post-Secondary Scholarship for Aboriginal Canadians**

The 2003 federal budget provided a one-time, \$12-million endowment to establish a new post-secondary scholarship for Aboriginal students. The scholarship fund is administered and delivered by the National Aboriginal Achievement Foundation (NAAF). This provides scholarships for post-secondary education to First Nations, Non-Status Indians, Métis and Inuit students enrolled in full- or part-time PSE programs involving two or more academic years. In the February 2005 budget, the federal government committed an additional \$10 million in 2005-2006 to the NAAF to further support the post-secondary education aspirations of Aboriginal students.

According to the NAAF's latest annual report, post-secondary scholarships for Aboriginal students will be funded through the Government of Canada Trust Fund. This fund was created following the 2003 budget allocation to provide perpetual annual financial support to the Foundation's Education Program. The Fund has specific investment guidelines; the first scholarships resulting from its initial endowment will be disbursed in 2005-2006.<sup>(34)</sup>

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(33) *Ibid.*, p. 19.

(34) National Aboriginal Achievement Foundation, *Financial Report 2004/5* (contained in the *Annual Report 2004/5*), p. 7.



## **F. Skills Development**

Although the federal government delivers a wide range of support to help unemployed and employed individuals acquire the necessary skills to secure or maintain employment, this level of support is substantially less than that provided to those pursuing a post-secondary education. The bulk of federal spending on skills training is delivered under Labour Market Development Agreements, the Aboriginal Human Resources Development Strategy, and Labour Market Agreements for Persons with Disabilities.

### **1. Labour Market Development Agreements**

On 27 November 1995, the Prime Minister announced that the federal government would withdraw from labour market training and that this withdrawal would take place over a three-year period.<sup>(35)</sup> In keeping with this announcement, section 61 of the *Employment Insurance Act* states that the federal government cannot provide assistance under the rubric of skills development in the absence of an agreement with a province.<sup>(36)</sup> Section 62 permits the federal government to enter into an agreement that would permit a province to administer employment benefits and other similar support measures (i.e., benefits under Part II of the Act). The *Employment Insurance Act* also permits the federal government to enter into contribution agreements with another government or a private organization to provide funding for the delivery of measures similar to those provided under Part II of the Act.<sup>(37)</sup>

Skills Development is one of five employment benefits<sup>(38)</sup> provided to eligible individuals under the *Employment Insurance Act*. This measure provides a negotiated level of assistance to those who require skills training to secure employment. Participants arrange and pay for their own training, and are reimbursed for part or all of the costs.<sup>(39)</sup> It is estimated that

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(35) Human Resources Development Canada, News release (95-51), 30 May 1996.

(36) The federal government has signed Labour Market Development Agreements with all provinces and territories, the most recent being the Canada-Ontario Agreement signed on 23 November 2005.

(37) For example, pursuant to the agreement that Quebec has signed with the federal government, that province receives federal funding for five measures: preparation for employment, integration, maintenance, direct job creation and stabilization.

(38) Employment benefits include targeted wage subsidies, job creation partnerships, skills development, targeted earnings supplements and self-employment assistance.

(39) Individuals who are eligible to receive regular EI benefits are entitled to do so while participating in Skills Development. Funding is negotiated and assistance may be provided to cover all or a portion of tuition fees, living expenses, books and other course material, dependant care, transportation, accommodation and disability supports. Assistance is available for a period of up to 52 weeks.

128,518 individuals started participating in a Skills Development intervention in 2003-2004; of that number, 44,850 individuals or slightly more than one-third were pursuing apprenticeship training.<sup>(40)</sup>

All Part II measures are funded from Employment Insurance (EI) contributions; as a result, access to this assistance requires EI eligibility.<sup>(41)</sup> Since the inception of EI in 1996, expenditures on Skills Development have increased by approximately 14%. In 2003-2004 (the latest year for which these data are available), roughly \$1.2 billion (including income benefits) was spent nationally on Skills Development, less than three-fifths of the federal outlay on skills training in the fiscal year just prior to the introduction of the *Employment Insurance Act*.<sup>(42)</sup> The maximum expenditure on all employment benefits and support measures in any given year cannot exceed 0.8% of total insurable earnings as estimated by the Canada Employment Insurance Commission. Actual expenditures have typically fallen well below this threshold.

## **2. Aboriginal Human Resources Development Strategy, and Aboriginal Skills and Employment Partnership Program**

The Aboriginal Human Resources Development Strategy (AHRDS) was introduced in 1999 for a five-year period. It has since been renewed for another five years (i.e., 2004-2005 to 2008-2009). Under this initiative, Aboriginal organizations receive funding to design and deliver labour market programs that help Aboriginal people prepare for, obtain and/or maintain employment. While improving Aboriginal peoples' skills is a part of the strategy, other components include helping Aboriginal youth make a successful transition from school to work, and increasing the supply and quality of child care services in First Nations and Inuit communities. The expenditures reported in Table 7 relate to all spending under AHRDS, as specific expenditures pertaining to skills development are not readily available.

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(40) As of 21 July 2002, apprentices are required to serve only one two-week waiting period while they are enrolled in apprenticeship training (see the 2001 budget).

(41) Only unemployed individuals receiving EI benefits or those who have received regular or maternity/parental benefits in the past three or five years, respectively, are eligible for this support. These eligibility criteria exclude many unemployed individuals.

(42) It is estimated that Human Resources Development Canada spent roughly \$2.7 billion on skills training in 1995-1996 (this amount includes funding from the Unemployment Insurance Account – now called the Employment Insurance Act – and the Consolidated Revenue Fund).

**Table 7**  
**Expenditures on Skills Development, Selected Years**  
**(\$ millions)**

	1995-1996	1997-1998	1999-2000	2003-2004	2004-2005
Skills Development	\$2,082.4	\$1,131.2	\$1,155.2	\$1,215.6	\$1,261.4
Workplace Skills Strategy	-	-	-	\$56.0	\$73.8
Aboriginal Human Resources Development Strategy	-	\$215.0 <sup>1</sup>	\$247.1	\$260.0	\$257.3
Aboriginal Skills and Employment Partnerships	-	-	-	\$7.3	\$18.2
Labour Market Agreements for Persons with Disabilities <sup>2</sup>	\$188.8	\$235.6	\$189.2	\$192.0	\$216.5
Opportunities Fund	-	\$18.8	\$30.8	\$23.8	\$24.1

- 1 Refers to all program funding for Aboriginal peoples, including regional bilateral agreements.
- 2 The Vocational Rehabilitation of Disabled Persons program, implemented in 1962, was replaced by the Employability Assistance for Persons with Disabilities (EAPD) initiative at the beginning of 1998-1999. EAPD was replaced by LMAPD at the beginning of 2004-2005.

Source: Human Resources Development Canada, *Employability Assistance for Persons with Disabilities, 1999-2000 and 2000-2001 (National Report)*, 2002; Human Resources Development Canada, *Performance Reports, selected years*; Human Resources and Skills Development Canada, *Employment Insurance Monitoring and Assessment Reports, selected years*; Social Development Canada, *Advancing the Inclusion of People with Disabilities*, 2005.

The Aboriginal Skills and Employment Partnership program is a five-year, \$85-million initiative designed to provide Aboriginal peoples with the skills needed to participate in major economic development projects across the country (e.g., northern mining, oil and gas projects). To be eligible for federal funding, the private sector, the relevant provincial/territorial government and affected local Aboriginal communities must establish a collaborative partnership. This partnership must entail an Aboriginal training continuum from basic skills and literacy training to academic upgrading to job-specific training and apprenticeships. In addition, the plan must commit to providing at least 50 long-term sustainable jobs for Aboriginal peoples.

### **3. Labour Market Agreements for Persons with Disabilities, and the Opportunities Fund<sup>(43)</sup>**

On 1 April 2004, bilateral Labour Market Agreements for Persons with Disabilities (LMAPD) replaced the Employability Assistance for Persons with Disabilities initiative. Under LMAPD, the federal government transfers up to 50% of the costs (subject to the allocation specified in each agreement) incurred by the provinces and territories to enhance employment among persons with disabilities. While flexibility exists within each agreement to focus on provincial/territorial priorities, labour market interventions must include one or more of the following priorities: education and training (e.g., pre-employment training and skills upgrading, and post-secondary education), employment participation, employment opportunities, connecting employers and people with disabilities, and building knowledge. In 2004-2005, some \$216.5 million (including \$3.7 million transferred to territorial governments) was spent on LMAPD.<sup>(44)</sup> Unfortunately, information on the proportion of funding that was specifically allocated to PSE- and training-related initiatives is not readily available.

Although not part of LMAPD, another measure that provides training and education to persons with disabilities is the Opportunities Fund. Funding is delivered through contribution agreements with third parties and is designed to help persons with disabilities obtain paid employment or self-employment. According to the terms and conditions for contributions, eligible activities that may be supported under the Opportunities Fund include, among other things, the provision of funding for tuition to help program participants obtain skills for employment, ranging from basic to advanced skills. In keeping with the November 1995 announcement referred to above, this assistance may be provided only if there is a provincial/territorial agreement to do so. The Opportunities Fund began in 1997 and was granted permanent funding status in 2000. Although some \$30 million has been allocated to this initiative each year, actual spending is generally less. According to the data provided in Table 7,

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(43) Although not discussed here, it should be noted that a relatively small expenditure is incurred under the Canada Pension Plan's (CPP) Vocational Rehabilitation Program to help CPP Disability clients return to work. According to a House of Commons report entitled *Listening to Canadians: A First View of the Future of the Canada Pension Plan Disability Program* (June 2003), \$4.6 million was allocated to this initiative in 2002-2003.

(44) Social Development Canada, *Advancing the Inclusion of People with Disabilities*, 2005, p. 70.

only \$24.1 million was actually spent in 2004-2005,<sup>(45)</sup> of which an unknown proportion was spent on skills development.

## **MEASURES TO PROMOTE SAVING FOR POST-SECONDARY EDUCATION AND TRAINING**

Publicly funded measures encouraging individuals to invest in higher learning have, for the most part, focused on students once they are enrolled in a post-secondary institution. Until recently, relatively little attention has been paid to policy measures encouraging families to save for their children's post-secondary education and training prior to enrolment. In the February 1998 budget, the government introduced the Canada Education Savings Grant (CESG), a contribution-based payment to Registered Education Savings Plans (RESPs). Six years later, the March 2004 budget announced plans to provide a means-tested enhanced CESG and a Canada Learning Bond (CLB).

### **A. Registered Education Savings Plans and Grants**

Tax-sheltered returns on contributions to RESPs have been in place in Canada for several decades. Today, RESP contributions continue to grow tax-free as well as elicit a grant, the value of which depends on a contributor's family income and the amount of the contribution. Since 1998, a 20% grant (i.e., CESG) is paid on annual RESP contributions up to \$2,000, irrespective of net family income.<sup>(46)</sup> Since January 2005, a CESG rate of 40% is paid on the first \$500 of RESP contributions (and 20% on the next \$1,500) if the child's family has a net income of \$35,595 or less, and 30% on the first \$500 (and 20% on the next \$1,500) if the child's family has a net income of more than \$35,595, but not more than \$71,190.

As shown in Table 8, expenditures on CESGs have increased substantially since their inception, up \$158.7 million between 1998-1999 and 2004-2005. During this period, CESG spending grew at an annual average rate of 9.6%, with the highest rate of growth coming in the initial years of the program; following the introduction of the CESG, the proportion of

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(45) *Ibid.*, p. 73.

(46) The maximum yearly RESP contribution is \$4,000. The maximum lifetime limit on RESP contributions for a beneficiary is \$42,000 and the maximum lifetime CESG is \$7,200, irrespective of family income.

taxpayers with children under the age of 19 who contributed to an RESP rose from 4.1% in 1998 to 7.2% in 2000.<sup>(47)</sup>

### **B. Canada Learning Bond**

One of the shortcomings associated with the initial configuration of the CESG was its limited impact on low-income families. As previously mentioned, the federal government added a means-tested component to the CESG to help address this problem. In addition, it began providing Canada Learning Bond payments to stimulate PSE savings among low-income families who have opened an RESP. Under this program, an initial payment of \$500 is paid to an RESP on behalf of children born after 31 December 2003, provided their families are entitled to the National Child Benefit (NCB) supplement. This initial payment is followed up by an annual payment of \$100 for up to 15 years, provided the families continue to be eligible for the NCB supplement. The maximum CLB payment for any given child is \$2,000.<sup>(48)</sup>

Although \$85 million was allocated to fund CLB payments in 2004-2005, no spending occurred. And, according to the *2005-2006 Supplementary Estimates (A)*, only \$9 million was appropriated for the CLB in 2005-2006. This information suggests that the take-up rate among eligible families for the CLB has been less than anticipated.

**Table 8**  
**Expenditures on Measures to Promote Saving for**  
**Post-secondary Education and Training, Selected Years**  
**(\$ millions)**

	<b>1998-1999</b>	<b>2000-2001</b>	<b>2002-2003</b>	<b>2004-2005</b>
Canada Education Savings Grant	\$267.3	\$433.5	\$342.9	\$426.0

Source: Human Resources and Skills Development Canada, Performance Reports, selected years.

(47) Human Resources Development Canada, *Formative Evaluation of the Canada Education Savings Grant Program*, April 2003, Section 8.4.

(48) An additional payment of \$25 is added to the initial \$500 payment to help defray the costs of opening an RESP.

## TAX MEASURES

Since the late 1990s, the federal government has increasingly used education-related tax expenditures to ease the financial burden of those enrolled in PSE and training. As shown in Table 9, federal education-related tax expenditures have almost doubled since 1998 and now exceed that spent on federal repayable and non-repayable need-based assistance for PSE students.

Federal education-related tax expenditures include: the adult basic education tax deduction for tuition assistance; the apprentice vehicle mechanics' tools deduction; the education credit; the tuition credit; the transfer of education and tuition credits; the student loan interest credit; the partial exemption of scholarship, fellowship and bursary income; the carry-forward of education and tuition credits; and the tax deferral on returns to contributions to RESPs.<sup>(49)</sup> Students are also entitled to a number of common deductions for moving expenses, child care expenses and disability supports.<sup>(50)</sup>

As indicated by the data presented in Table 9, the Department of Finance projects education tax expenditures to total more than \$1.5 billion in 2005, up 92% from 1998. The largest single tax expenditure contained in this table relates to the transfer of education and tuition fee credits from a student to a supporting spouse, parent or grandparent. Also of note, the education tax expenditure that has increased most since 1998 is the carry-forward of education and tuition fee credits (a 1997 budget measure), followed by deferred tax on returns to RESP contributions.

Although this fact is not included in Table 9, it should be noted that universities and colleges are not required to charge the Goods and Services Tax (GST) on the tuition and/or registration fee for credit and non-credit courses that meet certain criteria. Among others, credit courses leading to a diploma and degree, courses leading to professional or trade accreditation and vocational courses are GST-exempt.<sup>(51)</sup> According to the Department of Finance, the GST exemption for education services (tuition) is projected to be worth \$485 million in 2005.<sup>(52)</sup>

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(49) It should be noted that the Government of Quebec has its own system of education-related tax measures, as it collects its income tax independently of the federal government.

(50) See Appendix 2 for a brief overview of these measures.

(51) Canada Revenue Agency, *GST Memoranda*, "G300-4-3 Educational Services (GST 300-4-3) Electronic Version Only," <http://www.cra-arc.gc.ca/E/pub/gm/g300-4-3/g300-4-3-e.html>.

(52) Department of Finance Canada, *Tax Expenditures and Evaluations 2005*, 2005, Table 3, [http://www.fin.gc.ca/taxexp/2005/taxexp2005\\_e.pdf](http://www.fin.gc.ca/taxexp/2005/taxexp2005_e.pdf).

**Table 9**  
**Education-Related Personal Income Tax Expenditures, Selected Years**  
**(\$ millions)<sup>1</sup>**

	Estimates			Projections		
	1998	2000	2002	2003	2004	2005
Adult Basic Education – Deduction for Tuition Assistance	-	-	\$10	\$5	\$5	\$5
Apprentice Vehicle Mechanics' Tools Deduction	-	-	\$10	\$10	\$10	\$10
Tuition Fee Credit	\$260	\$310	\$275	\$295	\$305	\$320
Education Credit	\$120	\$140	\$250 <sup>3</sup>	\$260	\$275	\$280
Transfer of Education and Tuition Credits	\$335	\$325	\$420	\$435	\$450	\$460
Carry-forward of Education and Tuition Credits <sup>2</sup>	\$10	\$165	\$245	\$250	\$255	\$255
Student Loan Interest Credit	\$46	\$66	\$60	\$62	\$63	\$64
Registered Education Savings Plans	\$33	\$97	\$120	\$120	\$135	\$135
Partial Exemption of Scholarship, Fellowship and Bursary Income	\$6	\$29 <sup>4</sup>	\$22	\$22	\$22	\$23
<b>Total</b>	<b>\$810</b>	<b>\$1,132</b>	<b>\$1,412</b>	<b>\$1,459</b>	<b>\$1,520</b>	<b>\$1,552</b>

- 1 The elimination of these tax expenditures would not necessarily yield the full amount of forgone tax revenues shown above. For a discussion of the reasons, see Department of Finance, *Tax Expenditures: Notes to the Estimates/Projections*, 2004, [http://www.fin.gc.ca/gloss/gloss-t\\_e.html#tax-exp](http://www.fin.gc.ca/gloss/gloss-t_e.html#tax-exp).
- 2 These tax expenditures represent the value of education and tuition credits earned in past years and used in that year.
- 3 The October 2000 *Economic Statement and Budget Update* increased the education credit to \$400 per month for full-time students (up from \$150 in 1997 and \$200 in 1998-1999) and \$120 per month for part-time students (up from \$60 per month since 1998, the year part-time students became eligible for this credit). These increases were effective 21 January 2001.
- 4 The 2000 budget raised the exemption for scholarship, fellowship, bursary and income from \$500 to \$3,000. In addition, for 2000 and beyond, tax expenditures reflect the additional funds disbursed through the Canada Millennium Scholarship Foundation.

Source: Department of Finance Canada, Tax Expenditures and Evaluations, selected years, <http://www.fin.gc.ca/purl/taxexp-e.html>.



## **CAPACITY BUILDING**

Unless post-secondary institutions have the capacity to educate and train, access to PSE and training is seriously constrained. Capacity building in Canada's higher learning institutions has been a perennial budget announcement for much of the last decade. In the February 1997 budget, the federal government created the Canada Foundation for Innovation (CFI), an independent organization whose primary purpose is to help renew research infrastructure in Canadian post-secondary institutions and associated research hospitals. Averting potential labour shortages and raising the quality of research in Canada's post-secondary institutions – equally important components of capacity building – have also received considerable attention of late, primarily through increased funding for federal granting councils and the Canada Research Chairs Program.

Throughout the period 1997-1998 to 2006-2007, the federal government has made a commitment to increase spending on research and development by more than \$9 billion, much of which is being channelled through Canadian universities and colleges. Key initiatives associated with this spending are outlined below.<sup>(53)</sup>

### **A. Canada Foundation for Innovation**

The Canada Foundation for Innovation was created in 1997 to fund research infrastructure in Canada. Following its initial lump-sum endowment of \$800 million, the federal government has amended its funding agreement with the CFI several times for a total investment of \$3.65 billion to date.<sup>(54)</sup>

Table 10 presents total CFI expenditures for selected years. Since its inception, the CFI has spent a cumulative total of \$1.54 billion, or roughly two-fifths of the total federal funding commitment up to 2004-2005.

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(53) For more information on these initiatives, see Chantal Collin, *Federal Investments in Research and Development and Capacity Building in the Higher Education Sector*, PRB 05-104E, Parliamentary Information and Research Service, Library of Parliament, Ottawa, 2006.

(54) Canada Foundation for Innovation, *2004-2005 Annual Report*, 2005, p. 33.

**Table 10**  
**Federal Granting Councils and Related Expenditures, Selected Years**  
**(\$ millions)**

	1997-1998	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Canada Foundation for Innovation <sup>1</sup>	-	\$183.2	\$231.4	\$325.3	\$349.1	\$262.9
Social Sciences and Humanities Research Council of Canada <sup>2</sup>	\$87.2	\$127.0	\$133.1	\$146.4	\$165.8	\$180.2
Natural Sciences and Engineering Research Council of Canada <sup>3</sup>	\$418.0	\$533.8	\$528.1	\$563.5	\$610.4	\$643.7
Canadian Institutes of Health Research <sup>3</sup>	\$228.1	\$363.8	\$473.3	\$552.6	\$600.6	\$644.1
Canada Research Chairs	-	\$13.3	\$59.4	\$102.8	\$146.1	\$188.2
Indirect Costs	-	-	\$200.0	-	\$225.0	\$245.0
Total	\$733.3	\$1,221.1	\$1,625.3	\$1,690.6	\$2,097.0	\$2,164.1

1 Refers to grants paid to eligible recipients (excluding operating costs). No grants were paid in the CFI's initial year of operation.

2 Refers to spending on grants, scholarships and awards (excluding operating costs). Includes expenditures on Networks of Centres of Excellence and the Initiative on the New Economy, but does not include expenditures on Canada Research Chairs, Canada Graduate Scholarships and indirect costs.

3 Refers to spending on grants, scholarships and awards (excluding operating costs). Includes expenditures on Networks of Centres of Excellence, but does not include expenditures on Canada Research Chairs and Canada Graduate Scholarships.

Source: Canada Foundation for Innovation, Annual Reports, "Statement of Operations," selected years; Social Sciences and Humanities Research Council of Canada, Performance Reports, selected years; Natural Sciences and Engineering Research Council of Canada, Performance Reports, selected years; Canadian Institutes of Health Research (formerly the Medical Research Council of Canada), Performance Reports, selected years; and Secretariat of the Canada Research Chairs Program.

## **B. Federal Granting Councils**

Three federal granting councils – SSHRC, NSERC and the CIHR – have played a key role in research and development within Canada's post-secondary education system. These arm's-length federal agencies support the production and transmission of new scientific knowledge and the training of highly qualified people in their respective fields, and they promote collaboration between universities, industry and governments to ensure that innovations

contribute to the Canadian economy. Granting councils also help to bolster Canada's teaching capacity in the post-secondary education system. The number of faculty in Canadian universities has increased from 33,700 in 1997 to 38,000 in 2004.<sup>(55)</sup>

When the federal government began to reinvest in research and development in the late 1990s, one of its first initiatives was to restore the granting councils' budgets to their 1994-1995 levels. The federal government has allocated significant new resources each year to the federal granting councils; the cumulative increase in new spending (excluding Canada Research Chairs) as announced in federal budgets between the fiscal years 1998-1999 and 2006-2007 exceeded \$2.3 billion. As evidenced by the data presented Table 10, this infusion doubled spending by these organizations between 1997-1998 and 2004-2005.

### **C. Canada Research Chairs Program**

In February 2000, the federal government announced that it would invest \$900 million over five years to create the Canada Research Chairs program, an initiative designed to help Canadian universities attract and retain the best researchers.<sup>(56)</sup> The stated goal is to establish 2,000 research professorships across the country by 2008. To fund research infrastructure, an additional \$250 million was allocated through the Canada Foundation for Innovation.

As of November 2005, 755 Tier 1 and 822 Tier 2 chairs have been awarded in 73 participating universities. Of the total 1,577 chairs awarded, 53 have been renewed for a second term.<sup>(57)</sup> As shown in Table 10, less than three-fifths of the initial lump-sum allocation for this initiative was expended by the end of 2004-2005.

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(55) Association of Universities and Colleges of Canada, *Momentum: The 2005 Report on University Research and Knowledge Transfer*, Ottawa, 2005, p. 23.

(56) Chairs are allocated by tier level and discipline group. Tier 1 chairs are awarded to experienced researchers acknowledged by their peers as world leaders in their field, while Tier 2 positions are intended for emerging researchers acknowledged by their peers as having the potential to lead in their field. Tier 1 chairs are funded at \$200,000 annually for seven years and are renewable. Funding for Tier 2 chairs is set at \$100,000 annually for five years and can be renewed once. Universities are also expected to contribute financially to support the chairs. Chairs are allocated among disciplines as follows: 20% to social sciences and humanities, 35% to health sciences, and 45% to natural sciences and engineering (Malatest and Associates, *Fifth-Year Evaluation of the Canada Research Chairs Program*, December 2004, [http://www.chairs.gc.ca/web/about/publications/fifth\\_year\\_review\\_e.pdf](http://www.chairs.gc.ca/web/about/publications/fifth_year_review_e.pdf)).

(57) See the Canada Research Chairs Web site, [http://www.chairs.gc.ca/web/about/statistics\\_e.asp](http://www.chairs.gc.ca/web/about/statistics_e.asp).

#### **D. Indirect Costs of Research**

As expected, federal spending on capacity building raised administration costs in universities and affiliated research hospitals. These indirect research costs, estimated to be at least 40% of the direct costs, were recognized by the federal government in the 2001, 2003, 2004, 2005 and 2006 budgets.<sup>(58)</sup> Since the inception of this measure, the federal government has spent some \$670 million, as shown in Table 10. Annual federal spending on the indirect costs of research in 2005-2006 and beyond is expected to total \$260 million.

#### **E. Canada Social Transfer**

For several decades, the federal government has made unconditional transfer payments to provincial and territorial governments to help finance post-secondary education, among other things. The latest configuration of this transfer, called the Canada Social Transfer (CST), was introduced in April 2004 when the Canada Health and Social Transfer (CHST) was split into its health and social/PSE components.

The CST is a federal block transfer to provinces and territories intended to support post-secondary education, social assistance and social services, including early childhood development, and early learning and child care. It is made up of cash and tax points, which when combined are allocated on an equal per capita basis.<sup>(59)</sup> Since provinces and territories are able to spend whatever portion of the CST they wish on post-secondary education, there is no way to capture actual federal spending on post-secondary education via this transfer. However, it is possible to estimate notional expenditures for this purpose, and these are shown in Table 11 for selected years.

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(58) Indirect costs of research became a permanent program under the 2003 budget. Indirect research costs include, for example, setting up facilities; buying computer equipment and other essential technologies; and supporting increased demands on libraries, financial, custodial and human resources services.

(59) In 1977, the federal government reduced its personal and corporate income tax rates (by 13.5 percentage points and 1 percentage point, respectively), thereby allowing the provinces to raise their tax rates by the same amount. Since then, the value of tax points transferred has been a long-standing source of friction between the provincial and federal governments. From the federal perspective, a calculation of its support to provinces and territories should consider the value of transferred tax points as well as cash payments. From a provincial perspective, once the taxing capacity was transferred, the federal government no longer controlled this spending.

**Table 11**  
**Estimated Federal Cash Transfers in Support of**  
**Post-Secondary Education, Selected Years**  
**(\$ millions)<sup>1</sup>**

1997-1998	1999-2000	2001-2002	2003-2004	2004-2005
\$3,382.1	\$3,776.4	\$4,408.3	\$4,384.6	\$4,594.2

- 1 Notional cash transfers for PSE and social assistance were estimated on the basis of the linear trend between the share of cash transfers for these purposes in 1995-1996 and 2004-2005. These estimated shares were applied to total CHST cash transfers for each year presented (amounts for social services and dedicated health reform transfers were excluded to ensure consistency with the pre-CHST transfers). Notional cash transfers for PSE and social assistance were separated into their respective parts according to the distribution of provincial/territorial spending on PSE and social assistance as measured by Statistics Canada (CANSIM, Table 385-0001).

Source: Department of Finance Canada and the Library of Parliament.

According to these estimates, approximately \$4.6 billion was allocated to PSE via the CST in 2004-2005. This is somewhat higher than the notional value of this transfer in 1996-1997 (the first year of the CHST), but less than in 1995-1996.<sup>(60)</sup> It is estimated that a cumulative notional PSE cash transfer of roughly \$36 billion was paid to provincial and territorial governments under the CST and its predecessor between 1996-1997 and 2004-2005. Given the nature of this transfer, the extent to which it has contributed to capacity building in Canada's post-secondary education system is unclear.

## STUDENT EMPLOYMENT

In assessing students' financial needs, the CSLP requires students to contribute financially to their schooling. In this context, students are expected to work while not in school (e.g., during the summer) and save some of their earnings for PSE. Students are not expected to work while studying.

The federal government has helped students secure summer employment for more than 35 years. Today, this assistance is delivered under the Summer Work Experience Program, a collection of initiatives under the Youth Employment Strategy that are designed to create

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(60) According to the Canadian Association of University Teachers' Bulletin On-line and a document obtained under access to information, the federal government is spending about \$1.7 billion less on transfer payments for post-secondary education today than it did a decade ago. See [http://www.caut.ca/en/bulletin/issues/2005\\_apr/news\\_feds.asp](http://www.caut.ca/en/bulletin/issues/2005_apr/news_feds.asp).

summer employment opportunities for students. A major component of the Summer Work Experience Program is the Summer Career Placements Program (SCPP). SCPP provides wage subsidies to private, non-profit and public sector employers who create career-related jobs for full-time secondary and post-secondary students, between the ages of 15 and 30, who intend to return to school. Employment under this program is supposed to offer students an opportunity to acquire skills and work experience to help finance their return to school as well as facilitate a smooth transition to full-time work once schooling is completed. Preference is given to small and medium-sized employers (i.e., fewer than 500 employees).

According to the data presented in Table 12, expenditures on SCPP have been relatively constant between 1997-1998 and 2004-2005. This is somewhat surprising given the increase in the PSE student population during this period and a modest increase in average unemployment among returning students during the summer months (i.e., May, June, July and August) since the beginning of the decade.<sup>(61)</sup>

**Table 12**  
**Expenditures on the Summer Career Placements Program, Selected Years**  
**(\$ millions)**

1997-1998	1999-2000	2001-2002	2003-2004	2004-2005
\$95.8	\$91.0	\$96.4	\$93.3 <sup>1</sup>	\$93.3 <sup>1</sup>

1 Refers to budget allocations.

Source: Human Resources Development Canada, Performance Reports, 1999-2000 and 2001-2002; and Citizen and Community Service Branch, Service Canada, information provided to the Standing Committee on Human Resources, Skills Development, Social Development and the Status of Persons with Disabilities, November 2005.

## CONCLUSION

Although the returns to investments in higher education and training are thought to accrue primarily to students, society benefits as well.<sup>(62)</sup> This is the policy rationale for the substantial growth in spending on PSE and training since 1997-1998. As previously noted,

(61) As mentioned in Appendix 1, the 1996 federal budget announced that funds for 1996-1997 student summer placements would be doubled to \$120 million. In reality, funding for the SCPP increased by only \$30 million, while the rest was split equally between Heritage Canada, INAC and Industry Canada.

(62) In fact, the return to society regarding investments in PSE and training may be close to the private rate of return (see Jim Davies, *Empirical Evidence on Human Capital Externalities*, Department of Finance Canada, Working Paper 2003-11, February 2002).

estimated aggregate federal spending on higher learning exceeded \$12 billion in 2004-2005, more than \$4.5 billion above that spent in 1997-1998, the year in which the foundation for this investment strategy was laid. There is no doubt that the lion's share of growth in spending during this period was directed at capacity building in Canada's PSE system. It is estimated that almost three-fifths of the increase in spending on PSE and training during the period 1997-1998 to 2004-2005 was earmarked for this purpose. Outlays on non-repayable student assistance were also a significant contributor, with about 18% of growth in spending attributed to grants and scholarships, and 16% to increased spending on education- and training-related tax measures.

## **APPENDICES**



## **APPENDIX 1**

### **BUDGET PROPOSALS TO BOLSTER POST-SECONDARY EDUCATION AND TRAINING, 1996-2006**

#### **1996 BUDGET**

The 1996 budget measures pertaining to post-secondary education (PSE) and training were primarily delivered through the tax system. Specifically, the government increased the education tax credit from \$80 to \$100 per month, increased the limit on the transfer of tuition and education credits from \$680 to \$850, increased the annual Registered Education Savings Plan (RESP) contribution per beneficiary from \$1,500 to \$2,000 and the lifetime contribution limit from \$31,500 to \$42,000, and permitted child care expenses to be deducted from income, provided a single parent or both parents are enrolled in full-time studies. The estimated cost of these tax measures was \$5 million in 1996-1997 and \$80 million in 1997-1998.

The budget also promised to make Canada Student Loan repayments more flexible. In addition, funding for 1996-1997 summer employment placements was doubled to \$120 million.

#### **1997 BUDGET**

Like the previous year's budget, the 1997 budget further raised the education tax credit to \$150 per month in 1997 and to \$200 per month in 1998 and beyond. In addition, the tuition fee credit was broadened to include mandatory ancillary fees imposed by universities to cover the cost of education. Moreover, as of 1997, students were allowed to carry forward all of their unused tuition and education credits.

Following up on a promise made in the 1996 budget, the government extended from 18 to 30 months (excluding the initial 6 months granted to all students) the period of time that students may defer repaying their Canada Student Loan. This means that, where warranted, students have up to three years before making a loan payment.

The 1997 budget increased annual RESP contributions to \$4,000, but the lifetime limit remained unchanged at \$42,000. In addition, new rules would allow individuals to transfer unused RESP income to their Registered Retirement Savings Plan (assuming there is unused contributory room in the plan) or receive unused RESP investment income, subject to an appropriate charge.

To help workers raise their literacy skills and thus to foster greater access to learning opportunities, the government announced that it would increase spending on the National Literacy Secretariat by \$7 million (31%) beginning in 1997-1998.

In order to promote the conduct of world-class research, the 1997 budget announced that the government would create the Canada Foundation for Innovation. This Foundation would provide support for the modernization of research infrastructure in Canadian universities, research hospitals and the private sector. The budget provided an endowment of \$800 million, to be spent equally over five years.

The government also renewed funding for the Networks of Centres of Excellence, an initiative that links the research community with businesses seeking to develop new technologies. Funding for this initiative is \$47 million annually.

## **1998 BUDGET**

One of the key components of the 1998 budget was the Canadian Opportunities Strategy (COS). This initiative contained a number of measures to expand access to knowledge and skills including, for example, Canada Millennium Scholarships, Canada Study Grants for students in financial need who have dependants, support for graduate students, debt relief, tax relief and Canada Education Savings Grants.

Under the COS, the government created the Millennium Scholarship Foundation, an arm's-length organization that is responsible for awarding over 100,000 scholarships to full- and part-time students over a period of 10 years. Awards, about \$325 million annually, would be made from an initial endowment of \$2.5 billion beginning in 2000.

To help full- and part-time students who have children or other dependants and who are in financial need, the government announced its intention to provide a Canada Study Grant worth up to \$3,000 per year. Available beginning in 1998-1999, this grant was expected to help more than 25,000 eligible students. Funding would be delivered through the Canada Student Loans Program (CSLP) and was expected to cost roughly \$100 million annually.

The COS also contained a number of new measures to help individuals repay student loans. For instance, individuals would be entitled to a 17% tax credit on interest payments made on federal and provincial student loans. Beginning in April 1998, the earnings threshold for interest relief would be increased by 9%. And in 1999, partial interest relief would be introduced (i.e., below the basic income threshold, 100% of interest payments would be covered; and depending on the extent to which an individual's income exceeded the basic income threshold, the government would cover 75%, 50% or 25% of an individual's interest payments on student loans). Those who exhaust their 30-month period of interest relief would be entitled to an extension on their repayment period to 15 years. If after an extension of the repayment period an individual continues to experience financial problems, the interest relief period would be extended from 30 to 54 months. If, despite these extended relief measures, financial difficulties persist (i.e., annual payments exceed 15% of an individual's income), the government would reduce the loan principal. The maximum reduction is the lesser of \$10,000 or 50% of the loan.<sup>(1)</sup>

The COS also contained a number of measures supporting lifelong learning. Effective 1 January 1999, individuals are entitled to a tax-free withdrawal of up to \$10,000 per year from their Registered Retirement Savings Plan (RRSP), provided they are enrolled in full-time studies for at least three months during the year. Further withdrawals can be made for a period of up to four years, provided the total amount withdrawn does not exceed \$20,000. Withdrawals must be repaid in instalments over a 10-year period.<sup>(2)</sup>

In 1998, individuals enrolled in part-time studies became eligible to claim an education amount of \$60 per month for the purposes of calculating federal non-refundable tax credits. To be eligible, part-time students must be enrolled in a course lasting at least three weeks and with a minimum of 12 hours of course work. At the time, it was estimated that about 250,000 part-time students would benefit from this measure.

The COS budget provisions also permitted part-time students who are single parents to claim a child care expense deduction for periods during which they are enrolled in part-time studies. In the case of two-parent families, the spouse with the highest income may

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- (1) This measure would be used only if five years have passed since the completion of studies and all interest relief has been exhausted.
- (2) When this initiative was announced, it was estimated that there were at least six million individuals with RRSPs with assets totalling some \$200 billion.

claim the child care expense deduction arising as a consequence of the other parent's enrolment in part-time studies. About 50,000 part-time students were expected to benefit from this measure.

In support of advanced research and graduate students, the COS provided \$405 million over three years to augment the budgets of the three granting councils of Canada – the Natural Sciences and Engineering Research Council (NSERC), the Medical Research Council, and the Social Sciences and Humanities Research Council (SSHRC). As a result, the Councils' budgets in 1998-1999 would be restored to their 1994-1995 levels and increased thereafter.<sup>(3)</sup>

Looking to the future, the COS introduced an additional incentive to encourage families to save for their children's post-secondary education. Building on the 1996 and 1997 budgets that increased annual contribution limits for RESPs, the government implemented the Canada Education Savings Grant (CESG). As of 1 January 1998, a grant of 20% is paid on the first \$2,000 of annual contributions to an RESP made on behalf of children until they reach the age of 17. The maximum lifetime grant for each child is \$7,200.

## **1999 BUDGET**

The 1999 budget increased the 1997 allocation to the Canada Foundation for Innovation by \$200 million, of which one-half was to be used to support research infrastructure in the areas of the environment, science and engineering.

As noted above, the COS augmented the budgets of NSERC, the Medical Research Council (now called the Canadian Institutes of Health Research), and SSHRC. The 1999 budget increased by \$75 million and \$15 million the allocations for NSERC and SSHRC respectively, over the period 1999-2000 to 2001-2002.

The 1999 budget also contained a number of measures to disseminate and commercialize knowledge, most of which are specifically directed at post-secondary education.

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(3) This measure complements the 1997 budget measure that allocated \$800 million to create the Canada Foundation for Innovation, which makes awards to universities, research hospitals, and associated not-for-profit research institutions and organizations for the modernization of research infrastructure in the areas of health, environment, science and engineering.

## **2000 BUDGET**

The 2000 budget allocated an additional \$900 million to the Canada Foundation for Innovation. This brought total federal spending since the inception of this initiative to \$1.9 billion and would support continued investments in the modernization of research infrastructure until 2005.

The additional spending on the Canada Foundation for Innovation was also intended to meet the infrastructure needs of the Canada Research Chairs initiative that was announced in the 2000 budget. In this respect, some \$900 million was to be spent over five years through granting councils to establish and maintain Canada Research Chairs. The main objective of this funding is to build a critical mass of world-class research in Canadian universities.

The 2000 budget increased the tax exemption for income from scholarships, fellowships and bursaries. Under this initiative, the exemption threshold was raised from \$500 to \$3,000, the first increase since 1972. It was estimated that this provision would provide about \$30 million in tax assistance to students.

The 2000 budget increased Canada Health and Social Transfer (CHST) payments by a total of \$2.5 billion – \$1 billion in 2000-2001 and \$0.5 billion in each year between 2001-2002 and 2003-2004 – to help provinces and territories fund pressing needs in post-secondary education and health care.<sup>(4)</sup> In reality, this \$2.5-billion supplement was paid into a third-party trust and booked in the fiscal year 1999-2000. Provinces and territories had the flexibility to draw down on their share at any time over the aforementioned four-year period.

## **2001 BUDGET**

Unlike previous budgets which focused primarily on formal post-secondary education, the 2001 budget contained a number of measures supporting workplace-based training. In this context, the budget provided \$24 million over the period 2002-2003 to 2003-2004 to expand the network of sector councils.<sup>(5)</sup>

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(4) In 1997, the federal government began to restore cash transfers to the provinces and territories for health, post-secondary education and social assistance. The 1997 Economic and Fiscal Update raised the cash floor for the CHST from \$11 billion to \$12.5 billion. The 1999 budget also increased cash transfers (by \$11.5 billion between 1999-2000 and 2003-2004), but these payments were earmarked specifically for provincial and territorial health care services.

(5) These councils nurture industry-wide partnerships between employers, workers, unions and educators. They also assess skill requirements and identify solutions for meeting human resources needs. Currently, there are about 29 national councils, covering roughly 40% of the labour force.

To bolster apprenticeship training, the budget proposed that apprentices be subjected to only one two-week waiting period while receiving Employment Insurance (EI) benefits during periods of classroom instruction. This measure is estimated to cost \$15 million annually once it is fully phased in.

Beginning in 2002, registered apprentice vehicle mechanics were entitled to deduct for income tax purposes the cost of tools above the greater of \$1,000 or 5% of an apprentice's annual income. This measure is expected to cost \$10 million per year.

To encourage those who need basic adult education, the 2001 budget exempted from income tax any tuition assistance for basic adult education that is provided under certain government programs, including EI. The estimated cost of this measure is \$5 million per year. In addition, beginning in 2002 the education tax credit was extended to individuals who receive taxable assistance for PSE under certain government programs, including EI. It is estimated that this change will provide tax relief to roughly 65,000 individuals upgrading their skills and in doing so will provide access to the same tax benefits that are extended to other full-time and part-time PSE students. This measure is expected to cost \$20 million annually.

The 2001 budget also improved support for persons with disabilities who pursue PSE by increasing the maximum Canada Study Grant from \$5,000 to \$8,000 to help those who have high-cost disability-related needs. In addition, for students with disabilities whose maximum student loans are insufficient to meet assessed needs, the government announced that a supplementary Canada Study Grant worth up to \$2,000 per year would be made available. Combined, both of these measures are expected to cost \$10 million per year.

The 2001 budget announced a one-time payment of \$200 million to be delivered through the granting councils to Canadian universities to help alleviate the financial pressures associated with federally funded research initiatives.

The 2001 budget also increased the annual budgets of NSERC and SSHRC by \$36.5 million and \$9.5 million respectively. In addition, \$110 million in new funding over three years was allocated to the National Research Council to expand its regional innovation initiative beyond Atlantic Canada.

## **2003 BUDGET**

The 2003 budget increased annual allocations, beginning in 2003-2004, to NSERC, SSHRC and the Medical Research Council/Canadian Institutes of Health Research (CIHR) by \$55 million, \$15 million and \$55 million respectively. While these granting councils provide direct support to graduate students through scholarship and fellowship programs, and through awards for research performed at Canadian universities, the 2003 budget proposed the creation of Canada Graduate Scholarships to help renew university faculty. As a complement to the government's initiative to create 2,000 Canada Research Chairs, the Canada Graduate Scholarships program will, once fully implemented, support 2,000 masters students and 2,000 doctoral students each year. Funding for this program (i.e., \$105 million annually once fully phased in) will be distributed among the three granting councils in proportion to the distribution of the graduate student population (i.e., 60% to SSHRC, 30% to NSERC and 10% to CIHR).

Building on the 2001 budget, the government announced that it would provide \$225 million beginning in 2003-2004 to fund the indirect costs associated with federally funded research initiatives at universities, colleges and hospitals. The efficacy of this funding is to be reviewed after 2005-2006.

The Canada Foundation for Innovation received an additional payment of \$500 million in 2002-2003 to enhance support for modern health-related research facilities.

The 2003 budget contained two provisions to better facilitate skilled immigrants' entry into the Canadian labour market. First, \$13 million was to be allocated during the period 2003-2004 to 2004-2005 to initiatives in partnership with provincial and territorial governments, regulatory bodies and employers to facilitate foreign credential assessment and recognition. Second, the government would allocate \$10 million during the same two-year period to develop pilot programs that provide immigrants with language training at a more advanced level.

The government also announced its intention to modernize and strengthen the Canada Student Loans Program.

The annual in-study earnings exemption of \$600 (amounts earned in excess of this threshold decrease the loan by 80%) was increased to \$1,700 per year. In addition, a separate exemption of \$1,800 was established for merit-based scholarships.

To help graduates better manage their student debt, Debt Reduction in Repayment<sup>(6)</sup> was enhanced by increasing income eligibility thresholds, removing the current restriction limiting debt reduction assistance to 50% of outstanding debt (initial loan remission of up to \$10,000), and making available a new loan remission of up to \$5,000 after the first year of the initial debt reduction. An additional \$5,000 reduction is available in the second year if repayment problems persist.

Individuals who have defaulted on their Canada Student Loan or who have declared bankruptcy became eligible for interest relief.

Protected persons, including convention refugees, became eligible for Canada Student Loans.

The 2003 budget established a one-time, \$12-million endowment to establish a new scholarship program for Aboriginal PSE students. This measure is administered by the National Aboriginal Achievement Foundation.<sup>(7)</sup>

In response to the Throne Speech commitment to tailor training programs to help Aboriginal people participate in economic opportunities, the 2003 budget announced funding totalling \$25 million over two years towards the establishment of training programs to help Aboriginal people participate in major projects across Canada.

The 2003 budget announced that as of 1 April 2004 the CHST would be split into two transfers: the Canada Health Transfer and the Canada Social Transfer (CST). The CST would continue to support provincial and territorial spending on PSE and social assistance. CST cash transfers would be \$7.75 billion in 2004-2005 and rise to \$8.45 billion in 2007-2008. These amounts include an allocation of \$500 million for early childhood development.

## **2004 BUDGET**

Although saving for PSE via a RESP was considerably strengthened with the introduction of the CESG (see the section on the 1998 budget), it became increasingly apparent that this savings instrument was not that attractive to low-income families. Hence, the 2004 budget announced two measures to provide a bigger incentive for low-income families to save

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(6) Although the Debt Reduction in Repayment initiative was announced in the 1998 budget, this measure took some time to implement. Debt Reduction in Repayment is designed to help borrowers experiencing long-term problems repaying their student loans.

(7) Although this funding is not specifically related to PSE, it should be noted that the 2003 budget provided \$35 million over the period 2003-2004 and 2004-2005 to respond to the recommendations of the Minister of Indian and Northern Affairs National Working Group on Education.



for their children's education. The first measure pertains to the Canada Learning Bond (CLB). Starting in 2004, the government will make an initial RESP contribution of \$500 on behalf of children born into families that are entitled to the National Child Benefit (NCB) supplement. These children will qualify for 15 additional contributions of \$100 per year until the age of 15, provided their families are still entitled to the NCB supplement. If a child born in 2004 or later is not initially entitled to the CLB, but becomes eligible at a later date, the child will be entitled to the \$500 initial contribution. Subsequent contributions of \$100 would be paid until the child is 15 years of age, provided the family remains eligible for the NCB supplement. The maximum CLB contribution is \$2,000.<sup>(8)</sup>

To complement the CLB, the government would, starting in 2005, increase the CESG matching rate from 20% to 40% on the first \$500 of contributions for families with incomes up to \$35,595. The CESG matching rate would be increased from 20% to 30% on the first \$500 of contributions for families with incomes between \$35,595 and \$71,190.<sup>(9)</sup> Other eligible contributions would qualify for the 20% matching rate.

Starting in August 2005, the 2004 budget proposed to provide a new grant worth \$3,000 to eligible first-year students from low-income families who are eligible for a student loan. This grant would cover up to one-half of the cost of tuition, up to the lesser of \$3,000 or the student's assessed federal need. In addition, a new grant worth up to \$2,000 would be introduced for students with disabilities. This measure would replace the existing grant that is paid to students with disabilities who have financial needs in excess of the Canada Student Loan weekly limit. The augmented Canada Study Grant (i.e., up to \$8,000) that was announced in the 2001 budget to cover the cost of education-related services and equipment would continue to be available.

The 2004 budget also announced measures to enhance the Canada Student Loans Program. In recognition of growing PSE costs and the fact that the weekly loan ceiling under this program has not increased since 1994, the government proposed to raise the current loan limit of \$165 to \$210. This measure is expected to help 185,000 students.

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(8) It is estimated that this contribution would be worth about \$3,000 in current dollars (assuming a real rate of return of 3.5%) by the time the child reaches 18 years of age. At maturity, the CLB is expected to cost about \$325 million per year and benefit about 2.2 million children per year. In 2003-2004, it was expected that the CLB would benefit about 120,000 newborns.

(9) These income thresholds are indexed. Enhanced matching rates are expected to cost about \$80 million annually and help roughly 4.5 million children.

In some instances, students from moderate and middle-income families are not able to obtain a loan under the CSLP or enough financing under the program because their parents' expected contribution (part of the needs assessment) is thought to be too high. Hence, the government proposed to reduce the expected parental contribution such that additional financial support under the CSLP would increase by a maximum of \$2,550 per family. It is estimated that this measure would help roughly 40,000 students from families with incomes between \$60,000 and \$100,000.

The 2004 budget also built on previous measures to assist individuals with high student debt. To help graduates facing debt repayment problems, the government proposed to increase the income eligibility threshold for interest relief (interest costs are covered for up to 54 months in the first five years of repayment) by 5%. And for borrowers who, after exhausting interest relief, continue to face financial difficulties, the maximum debt reduction would increase from \$20,000 to \$26,000. This will help ensure that greater financial hardship does not result as a consequence of the increase in loan limits.

Full- and part-time students benefit from an education tax credit of \$400 and \$120 per month respectively, in recognition of the non-tuition costs of schooling, such as textbooks. Previously, employed individuals were not allowed to claim this credit in relation to programs that are directly related to their jobs. In an effort to bolster lifelong learning, the government proposed to allow individuals, in the 2004 tax year, to claim the education tax credit in relation to education pertaining to current employment.

The 2004 budget also indicated that the government intends to review existing measures under the CSLP in relation to part-time students, with the aim of increasing the number of low-income students enrolled in part-time studies.

In terms of workplace-based training, the 2004 budget indicated that the government was developing a Workplace Skills Strategy to upgrade workers' literacy and essential skills, promote apprenticeships in skilled trades and encourage employer-based training. The budget committed \$15 million in the first two years of a three-year pilot project to implement a Training Centre Infrastructure Fund for matching employer and union investments in new machinery and equipment for selected training centres.

Building on the 2003 budget, the 2004 budget announced an additional \$15 million per year to provide language training to immigrants at advanced levels. Furthermore, an additional \$5 million per year beginning in 2005-2006 is to be allocated to sector councils in relation to assessing and recognizing the credentials of foreign-trained workers.

The 2004 budget renewed some of the funding associated with the Aboriginal Human Resources Development Strategy. Specifically, \$125 million was allocated over a five-year period to replace funding that was scheduled to end on 31 March 2004. The budget was silent in terms of specific spending initiatives to meet the skill training needs of Aboriginal people.

Like most federal budgets since 1998, the 2004 budget also increased annual funding to the granting councils. Beginning in 2004-2005 the annual budgets of NSERC and CIHR were each to increase by \$39 million, while the annual budget of SSHRC was to grow by \$12 million.<sup>(10)</sup>

Both the 2001 and 2003 budgets contained federal support to help cover the indirect research costs borne by universities and research hospitals as a consequence of increased federal spending on research. The 2004 budget also increased federal spending on indirect research costs, raising annual outlays to \$245 million beginning in 2004-2005, an increase of \$20 million per year.

## **2005 BUDGET**

As part of the Workplace Skills Strategy that was announced in the 2004 budget, the 2005 budget committed an additional outlay of \$125 million over the period 2005-2006 to 2007-2008 to: strengthen apprenticeship training, including strengthening Aboriginal peoples' participation in apprenticeship programs and facilitating the transition of retiring military tradespersons to civilian skilled trades; create a Workplace Partners Panel to advise the government; and leverage support from workplace partners to design and test skills development projects for employed individuals.

As an initial step in developing a comprehensive strategy to support literacy and essential skills training, the 2005 budget contained \$30 million for the period 2005-2006 to 2007-2008 to enhance the capacity of the National Literacy Secretariat.

In terms of financial assistance for PSE students, the 2005 budget extended eligibility for loan forgiveness to borrowers in the event of their death or if they become permanently disabled during the repayment period. In addition, the government announced that it would amend the legislation for the Millennium Scholarship Foundation to allow protected persons, including convention refugees, to be eligible to receive scholarships and bursaries.

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(10) The combined annual budgets of these granting councils in 2003-2004 was more than \$1.4 billion, 90% higher than their combined funding in 1997-1998.

The 2005 budget built on the support provided in the 2003 budget to establish a PSE scholarship program for Aboriginal students. In this context, an additional \$10 million was to be allocated in 2005-2006 to the Post-secondary Education Program administered by the National Aboriginal Achievement Foundation.

As in past budgets, the 2005 budget continued to augment spending on research in Canada's higher education sector. Of note, annual funding for the three granting councils was increased by \$75 million beginning in 2005-2006; the CIHR and NSERC each received an increase of \$32 million per year, while SSHRC obtained an increase of \$11 million. In addition, research on subatomic physics funded through the National Research Council of Canada (i.e., the Tri-University Meson Facility)<sup>(11)</sup> will receive an additional \$126 million during the period 2005-2006 to 2009-2010. Funding for the indirect costs of research was also augmented in the 2005 budget, increasing annual spending on this activity to \$260 million beginning in 2005-2006, up \$15 million from the previous fiscal year.

#### **BILL C-48, AN ACT TO AUTHORIZE THE MINISTER OF FINANCE TO MAKE CERTAIN PAYMENTS**

This legislation, which was assented to on 20 July 2005, provides for the expenditure, out of the annual surplus, of certain payments in excess of \$2 billion during the fiscal years 2005-2006 and 2006-2007. Aggregate spending in this regard throughout this entire period cannot exceed \$4.5 billion. Of this total, a maximum of \$1.5 billion can be spent in support of training programs and enhanced access to PSE to benefit Aboriginal peoples, among others. As indicated in the November 2005 Economic and Fiscal Update, the fiscal surplus required under Bill C-48 to make these payments appears to be guaranteed.

#### **2006 BUDGET**

Budget 2006 contains several measures to bolster investments in PSE and apprenticeship training. Effective January 2007, apprentices who are training in a nationally designated trade (i.e., a Red Seal trade) will be entitled to a taxable grant of \$1,000 a year during the first two years of the apprenticeship training period. In addition, beginning in May 2006,

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(11) The Tri-University Meson Facility is Canada's most important national laboratory for nuclear and particle research and is located at the University of British Columbia.

employers who hire apprentices will be eligible for a tax credit equal to 10% of wages paid to qualifying apprentices for a maximum tax credit of \$2,000 a year for each apprentice during the first two years of the apprenticeship training period.

Other tax measures include exempting all PSE scholarship and bursary income from tax, introducing a non-refundable textbook tax credit, and providing a tax deduction of up to \$500 to help cover the cost in excess of \$1,000 for tools that tradespeople must purchase as a condition of employment.

In terms of capacity building, the government will make a one-time payment of \$1 billion (to a third-party trust) provided that sufficient funds (in excess of \$2 billion) exist from the 2005-2006 surplus. These funds will be distributed to the provinces and territories on a per capita basis to help enhance the infrastructure and equipment of universities and colleges. Furthermore, Budget 2006 will provide an additional \$40 million a year for the Indirect Costs of Research Program, \$20 million a year for the Leaders Opportunity Fund of the Canada Foundation for Innovation, \$17 million a year for the Canadian Institutes of Health Research, \$17 million a year for the Natural Sciences and Engineering Research Council of Canada, and \$6 million a year for the Social Sciences and Humanities Research Council of Canada.

Budget 2006 also indicates that the government intends to improve the Canada Student Loans Program by expanding loan eligibility to students from families with incomes between \$65,000 and \$140,000. By lowering the parental contribution expected of families in this income range, the government expects to enhance loan assistance for 25,000 students beginning in the loan year August 2007.

The government intends to set aside \$307 million to be allocated in 2006-2007 and 2007-2008 for immigration settlement, including language training and employment-related support. Budget 2006 also provides initial funding (\$18 million over two years) for the establishment of a Canadian agency for assessing and recognizing credentials.

Budget 2006 provides \$150 million in 2006-2007 and \$300 million in 2007-2008 to assist Aboriginal communities. Although some of this funding is intended for education, the exact amount was not provided in the budget.

Finally, as part of the government's objective to strengthen the economic and social union, the Minister of Human Resources and Social Development will initiate discussions with the provinces and territories on the overall objectives of PSE and training, appropriate roles, and the development of a framework for measuring results and ensuring accountability in respect of funding.<sup>(12)</sup>

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(12) Department of Finance, *Restoring Fiscal Balance in Canada*, 2006, p. 80.

**A Summary of Spending Commitments on Post-secondary Education and Training  
as Announced in the Budgets for 1996-1997 to 2006-2007 (\$ millions)**

	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
<b>Student Borrowing and Debt Reduction Assistance</b>											
Improvements to CSLP and Debt Reduction			50	145	150		27.1	32.1		95	
Interest Relief		20	20	20							
<b>Grants, Scholarships and Other Income Support</b>											
Canada Millennium Scholarships		2,500	nil								
Canada Study Grants			100	100	100	100	100	100	100	100	
Canada Study Grants (Persons with Disabilities)							10	10	10	10	
Canada Access Grants										45	
Canada Graduate Scholarships								25	55		
Scholarships for Aboriginal PSE Students							12	nil	nil	10	
Apprenticeship Grant											25
<b>Measures to Support Saving</b>											
Canada Education Savings Grant			150	200	275						
RESP Measures		20	35	40					20	80	
Canada Learning Bond									85	85	
<b>Tax Measures</b>											
Extend and Enhance Education Credit		15	55	80	10	225	10 230	20	5	10	
Broaden Eligibility for Child Care Expense Deduction		10	10								
Extend Tuition Credit – Adult Education		5	30	30		10	5	5			
Apprenticeship Job Creation Tax Credit											190
Tradespeople's Tool Expenses											75
Textbook Tax Credit											135
Exempting PSE Scholarships and Bursaries											50
Carry-forward of Unused Tuition and Education Credits	5	50	60	25							
Tax Relief for Interest on Canada Student Loans			80	130	145						
Tax-free Withdrawals on RRSPs – Lifelong Learning			15	40	45						
Tax Relief for Part-Time Students			25	90	90						
Increased Exemption for Scholarships and Bursaries					5	30	30				
Apprentice Tools Deduction							5	10			

	1996-1997	1997-1998	1998-1999	1999-2000	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006	2006-2007
<b>Capacity Building – Funding for University-based Research</b>											
Canada Foundation for Innovation	800	nil	200	900	750* 500	nil	500				20
Genome Canada				160	nil				225	nil	
Canada Research Chairs					60	120	180	240	300		
Canadian Institute for Advanced Research						25	nil				
Medical Research Council/Canadian Institutes of Health Research			40	44	50	50	125	180	219	251	17
Natural Sciences and Engineering Research Council of Canada			71	103	110	146.5	121.5	176.5	215.5	247.5	17
Social Sciences and Humanities Research Council of Canada			9	18	20	29.5 20	24.5 20	39.5 20	51.5 20	62.5 20	6
National Research Council			16	5	5	35	40	75	35	35	
Indirect Costs of Research						200	nil	225	245	260	40
Networks of Centres of Excellence			18	49	30	30				5	
Tri-University Meson Facility										21	
Increase in CHST (notional share for PSE)					1,000 (250.4)	500 (122.4)	500 (117.1)	500 (110.1)			
<b>Workplace Initiatives</b>											
Student Employment	60	60									
Workplace and Family Literacy		7	7	7						5	
Sector Councils							12	12			
Apprenticeship Training (one waiting period)							15	15			
Skilled Immigrants								19.5	21.6	nil	
Aboriginal Skills and Employment Partnership								10	15	nil	
Multilateral Framework for Persons with Disabilities									30	30	
Workplace Skills Strategy									5	35	
Language Training for Immigrants									15	15	
Foreign Credential Recognition										5	6
Aboriginal Human Resource Development Strategy									25	25	

\* This expenditure was not announced as a budget measure. The Minister of Industry simply announced on 6 March 2001 that the government would spend \$750 million on the CFI to extend the program to 2010.

Shading denotes spending attributed to the 2000 Economic Statement and Budget Update.

Source: Department of Finance Canada, Budgets and Economic Statements since 1996.

**APPENDIX 2**

**FEDERAL TAX MEASURES RELATED TO  
POST-SECONDARY EDUCATION AND TRAINING**

<b>Tax Measures</b>	<b>Description</b>
Education Credit	<ul style="list-style-type: none"> <li>• Students can claim this amount for each whole or part month in a year in which they are enrolled in a qualifying educational program.</li> <li>• Full-time students can claim \$400 per month in 2005.</li> <li>• Part-time students can claim \$120 per month in 2005.</li> <li>• Full-time students with disabilities who are entitled to claim a disability tax credit can claim \$400 per month in 2005.</li> <li>• Part-time students with disabilities who have an impairment that restricts them from attending full-time can claim \$400 per month in 2005.</li> </ul>
Tuition Credit	<ul style="list-style-type: none"> <li>• Students may claim a tuition tax credit, which is a non-refundable tax credit, when calculating tax otherwise payable if they meet certain requirements.</li> <li>• The amount of the tuition tax credit is determined by multiplying the lowest personal tax rate percentage by the amount of eligible tuition fees paid for the year.</li> </ul>
Transfer of Education and Tuition Credits	<ul style="list-style-type: none"> <li>• Students may be able to transfer part or all of the unused part of these amounts to a spouse or common-law partner or to their own or their spouse's or common-law partner's parent or grandparent.</li> </ul>
Carry-forward of Education and Tuition Credits	<ul style="list-style-type: none"> <li>• Students can carry forward and claim in a future year the part of their tuition and education amounts they cannot use (and do not transfer) for the year.</li> <li>• Once an amount is carried forward, it cannot be transferred to anyone.</li> <li>• Students have to claim the carry-forward amount in the first year that they have to pay federal tax.</li> </ul>
Student Loan Interest Credit	<ul style="list-style-type: none"> <li>• Student may be eligible to claim most of the interest paid on a loan for post-secondary education.</li> <li>• Students can carry forward and apply the interest paid to a return for any of the next five years.</li> </ul>



Tax Measures	Description
Partial Exemption of Scholarship, Fellowship and Bursary Income	<ul style="list-style-type: none"> <li>Up to \$,3000 of scholarship, fellowship or bursary income is exempt for tax purposes if it was received in connection with a taxpayer's enrolment in an educational program for which he or she may claim an education tax credit for the year.</li> </ul>
Registered Education Savings Plans	<ul style="list-style-type: none"> <li>Tax on investment return can be deferred until the beneficiary of an RESP cashes its benefits for their intended purpose.</li> </ul>
Adult Basic Education – Tax Deduction for Tuition Assistance	<ul style="list-style-type: none"> <li>Exempts from income tax tuition assistance for adult basic education provided under Part II of the <i>Employment Insurance Act</i> or any other training program established under the authority of the Minister of Human Resources and Social Development including, for example, Labour Market Agreements for Persons with Disabilities.</li> </ul>
Apprentice Vehicle Mechanics' Tools Deduction	<ul style="list-style-type: none"> <li>Registered apprentice vehicle mechanics may deduct costs in excess of \$1,000 or 5% of income for new tools in order to fulfil their on-the-job training requirements.</li> </ul>
Moving Expenses	<ul style="list-style-type: none"> <li>Students can claim moving expenses that they incur at the beginning of each academic period, as long as they move 40 kilometres closer to the educational institution they are attending.</li> <li>Students can deduct eligible moving expenses only from award income (scholarships, fellowships, bursaries, prizes and research grants) they report on their return.</li> </ul>
Child Care Expenses	<ul style="list-style-type: none"> <li>Child care expenses incurred by students to participate in an eligible educational program lasting at least three weeks are deductible.</li> </ul>
Disability Supports Deduction	<ul style="list-style-type: none"> <li>Students with disabilities who attend a designated educational institution or a secondary school can deduct certain disability supports expenses, such as devices for the blind and visually impaired or those with an impairment in physical or mental functions.</li> </ul>

Source: Department of Finance Canada, *Tax Expenditures: Notes to the Estimates/Projections*, 2004.