GOVERNMENT - INTERMEDIARY - UNIVERSITY:  
THE FINANCIAL DECISION-MAKING ROLE OF THE 
UNIVERSITIES COUNCIL OF BRITISH COLUMBIA  

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ABSTRACT

This study examines the financial decision-making role of the Universities Council of British Columbia as an intermediary in government-university relations.

It focusses on the major decisions taken by the Universities Council in the period 1974-1982 in exercising its statutory mandate for university financing. The purpose is two fold: to determine whether any problems exist for the Universities Council as an intermediary in the performance of its financial decision-making role; and, if problems exist, to recommend appropriate future courses of action to address them.

This task is attempted, first, by making a review of the literature, to establish what has already been learned about the performance of intermediaries in a government-university setting and the nature of university costs and financial behaviour; second, by utilizing an elementary mode of analysis which involves the construction of simple, descriptive models representing some of the elements recognized to be present in the interaction between governments, universities, and intermediaries; third, by recounting the difficulties actually encountered by the Universities Council in recent decisions concerning (i) the annual recommendation to government about the universities' financial requirements, and (ii) the annual
allocations to the universities for general operating purposes; and fourth, concluding with some suggestions concerning the Council's financial decision-making role in future.

The examination discloses two basic problems associated with the Council's approaches for discharging its financial mandate. First, Council has not been able to formulate a fully satisfactory perception of the financial requirements of the universities. Second, in absence of such a perception the Council has not succeeded in developing an acceptable long term methodology for the allocation of the provincial operating grant for universities. In addition, the analysis suggests that an intermediary in higher education requires the retention of significant support from the other major entities in the system.

The study concludes by suggesting that Council explore a more explicit planning approach to guide its financial decision-making role.
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Chapter One

INTRODUCTION

In the literature on the administration of higher education there are few studies which attempt to learn why buffer or intermediary agencies are introduced into an operational environment in the first place only, in some instances, to be abandoned later. It is not clear, for instance, whether the success or failure of such administrative instruments can be attributed to any specific factor, or factors, such as the structure or design, a mal-functioning decision-making procedure, or, even at a more rudimentary level, the human element. In Britain, the University Grants Committee has become a venerable institution, although not without its critics. In the neighbouring province of Alberta a higher education commission with somewhat corresponding duties to perform was dismantled after a very short period of service.

It is reasonable to expect that, from time to time, the government will review the performance of its intermediary in respect of the role which has been assigned to it by statute. Indeed, in the non-university sector in British Columbia the precedent for Government review has been legally established: councils as well as the colleges and institutes are mandated by statute to report at regular intervals why they "should continue to exist" and in turn, the minister is instructed to report to Government "about measures that should be taken to remedy to improve the situation disclosed by the report" (College and
Institute Act, section 66).

British Columbia's experience with its own intermediary, the Universities Council of British Columbia, is barely nine years old and, thus far, the performance of the Council has not been subjected to external evaluation. In this study a beginning effort is made to mobilize and assess what is presently known about this performance in the specific - and highly sensitive - area of financial questions: as in the decisions taken with respect to the financing of the universities.

Pending an accepted identification of the causal factors of success or failure of such intermediary bodies, from an education administrator's standpoint it is still somewhat uncertain what data - statistical or otherwise - would best represent the issues under discussion for measurement purposes. At some stage statistical techniques may be brought to bear on the accumulating information. Using the methodology at hand, which reduces to a serious attempt to reconstruct and analyze the events which precede and follow an observed event (although not a controlled experimental protocol*), this study deals mainly with selected events that transpired during the period 1974-1982. Some leading questions are advanced but the treatment followed here stops short of an effort to set forth and test specific hypotheses.

PURPOSES

This study examines the major decisions taken by the Universities Council of British Columbia in the period 1974-1982 in exercising its statutory mandate for university financing. The purpose of this examination is two fold:
i) to determine whether any problems exist for the Universities Council as an intermediary in the performance of its financial decision-making role; and
ii) if problems exist, to recommend appropriate future courses of action to address them.

METHODOLOGY AND ORGANIZATION

Efforts to analyse the performance of intermediaries have been handicapped by the lack of a generally accepted theoretical model. Robert Berdahl (Berdahl, 1971), a leading authority, recently concluded that: "We are still far from having a satisfactory goals oriented evaluation process for statewide boards" and, further, that no quantitative links have been demonstrated between the structures and powers of intermediaries and university system performance. He notes also, with respect to the state of the art of evaluation of intermediaries, that:

One searches the relevant literature in vain for objective cannons of proof which would remove the subject from controversy and contradictory arguments. (Berdahl, 1971:40)

Lacking a generally accepted model, a researcher
undertaking to conduct an analysis of an intermediary's performance must endeavour to construct an appropriate mode of analysis.

The task is attempted in this study, first, by making a review of the literature, to establish what has already been learned about the performance of intermediaries in a government-university setting and the nature of university costs and financial behaviour (Chapter 2); second, by utilizing an elementary mode of analysis which involves the construction of simple, descriptive models representing some of the elements recognized to be present in the interaction between governments, universities, and intermediaries (Chapter 3); third, by recounting the difficulties actually encountered by the Universities Council in recent decisions concerning (i) the annual recommendation to government about the universities' financial requirements (Chapter 4), and (ii) the annual allocations to the universities for general operating purposes (Chapter 5); and fourth, concluding with some suggestions concerning the Council's financial decision-making role in future (Chapter 6).

ORIGINS OF THE INTERMEDIARY

Nearly thirty years ago at a conference of the Association of British Universities of the Commonwealth, Canadian educator and President of the University of British Columbia, Dr. N.A.M. MacKenzie prophesied that:

Because of the nature of our contemporary world and society, the inevitable trend in most countries...has been
towards a greater dependence on and participation by government in respect of university finances and revenues... This dependence is likely to continue. (Berdahl, 1959:183)

In Canada today, government is by far the predominant financial patron of the university. Indeed, the use of public money constitutes the essence of government-university relations. The expenditure of public money necessarily entails some degree of government control and scrutiny and the crucial question relates to the nature of that control. In most of the public sector the processes of government control over the appropriation and expenditure of tax money are well established. In the case of government-university relations, however, the operational nature of that control is less clearly defined.

The intermediary body is one organizational mechanism with which many governments have sought to monitor appropriately the expenditures of public money by the universities while simultaneously respecting, to the extent practicable, their autonomy for the purpose of preserving academic freedom. Noted international educator, Lord Robbins of the United Kingdom, has succinctly described the constitutional invention of the intermediary in this context as follows:

If the state is willing to entrust the distribution of public money for this purpose and the scrutiny of the way in which it has been spent, not directly to a government department inevitably subject to political control and influence, but indirectly to a non-political expert commission or committee; and if that body makes its grants in forms which impose a minimum of precise specification on the detail of expenditure, then there is created a partial insulation which should be sufficient to protect academic institutions against the cruder incursions of politics and to create an area in which freedom to maintain their own standards and initiate their own development is reasonably well preserved. (Robbins, 1980:91)
In the United Kingdom, the prototype of an intermediary, the University Grants Committee (U.G.C.), was established in 1919. In North America the requirement for, and use of public funds by universities led, much later, many jurisdictions to establish intermediary bodies in higher education.

In the United States the concept of the intermediary took three general forms: the voluntary agency, the governing board and the coordinating agency. Voluntary agencies are formed by the universities themselves for the promotion of institutional self-interest in order to obtain the greatest amount of public funds with minimal bureaucratic structures and reporting requirements.

A governing board is characterized by its legal mandate to govern all aspects of all universities within its jurisdiction. The membership is generally composed in significant measure of institutional representatives.

The coordinating agency is a form of intermediary which most closely resembles the British conception in that it has system-wide responsibilities assigned by statute but allows the existence of governing boards with legal responsibilities for the internal management of the individual institutions. Three major types of coordinating agencies are identifiable (Hollick-Kenyon, 1979:66 et seq.): those with advisory powers composed of a majority of institutional representatives, those with advisory powers composed of a majority of lay public members and those with regulatory powers composed of a majority of lay public members.
With respect to the powers of coordinating agencies, Glenny has stated normatively that such groups ought, in order to be effective, to be able to gather institutional data, formulate master plans, approve new programs and review budgets (Glenny, 1976). These three inter-related areas of responsibility have been generally assigned to coordinating agencies in the American model.

A large body of literature exists which examines the effects of coordinating agencies. These examinations focus generally on the balances between the powers of the agency and the powers of the institutions to control and take decisions. There are no specific guidelines resulting from these studies which would enable a government to establish a "proven" intermediary. It has been observed that:

there have been no studies to indicate that elaborate coordination does or does not affect levels of state expenditure for higher education, percentage of a population attending college, cost of instruction or increased productivity of higher education. (Berdahl, 1971:256)

Berdahl maintains that it is impractical to attempt such measurements. The American conception of an intermediary only proposes that powers of budget review, program approval and planning ought to be assigned the intermediary on the grounds that such matters require examining in the public interest and neither the government nor the universities are the appropriate bodies to conduct the examination. Those decisions of the intermediary which are critical to the appropriate exercise of these powers are in the main only definable by the experience of individual jurisdictions.
In Canada, the establishment of intermediaries occurred primarily in the 1970s when most provinces effected substantial changes in their legislative arrangements of government-university relations. Michael Oliver, author of one of the provincial studies on higher education, has commented in retrospect on these endeavours in this country:

Practically all of the Reports dealt with the relations between universities and government. It is hard to identify any luminous insights. The best that can be said for us is that all the Report writers were asking the right question: How to preserve a reasonable degree of university autonomy at the same time as making universities part of a well-articulated system responsive to and accountable to the public that they serve... Satisfactory models for university government relations are scarce. The proposals of the other Commissions do not seem to me to be inspiring. (Gregor, 1979:39)

Such commentary notwithstanding, many changes occurred. Five provinces created separate ministries responsible for post-secondary education, although two have since abandoned this approach. With one exception, (Newfoundland) all provinces established advisory and coordinating agencies following the example of the University Grants Committee in the United Kingdom. Three provinces (the Maritimes) replaced their intermediaries with a joint higher education commission, the Maritime Provinces Higher Education Commission.

The Hurtubise-Rowat Report has described the establishment and evolving role of these provincial mechanisms thus:

the basic problem of university-provincial relations is the role of the intermediary bodies...these bodies originally came into existence to advise the provincial governments on the financial resources to be allocated to the universities and on the division of these resources among them. The situation has changed to such an extent that it is now the responsibility of provincial governments to ensure education and comprehensive planning
of their future development...In our view, therefore, because exclusive intervention by government is undesirable, intermediary bodies are needed not only to perform the advisory and allocative functions of the existing university commissions but also to assume these newer functions of coordination and planning. (Hurtubise-Rowat, 1970:108)

This recommendation that intermediaries accept a planning function based upon observation of the Canadian context reflects both the American conception of the role of the coordinating agency and the terms of reference of the prototype intermediary, the U.G.C., which were amended in 1946 to include the following:

...to assist, in consultation with the universities and other bodies concerned, the preparation and execution of such plans for the development of the universities as may from time to time be required in order to ensure that they are adequate to national needs. (Owen, 1980)

Underpinning all planning, however, lie the financial resources required for the implementation of the plans. Planning is, therefore, integrally related to the financial decision-making process.

In British Columbia the role of the intermediary in government-university relations is prescribed in the University Act mainly in terms of a set powers granted to the Council. It was left to Council to decide how to exercise these powers in the fulfillment of its financial mandate. An examination of the historical record of Council's financial decision-making in relation to its role as an intermediary in higher education is the subject of this study.
BACKGROUND AND DESCRIPTION OF THE UNIVERSITIES COUNCIL

In British Columbia the major investigative work and recommendations on the establishment of an intermediary were reported to the Minister of Education in 1969 by the Advisory Committee on Inter-University Relations under the chairmanship of Dr. G.N. Perry. This Report emphasized the primacy of the financial issue in government-university relations as follows:

When the universities come to rely heavily on governmental grants for operating and capital purposes, the determination and allocation of these grants becomes an important, if not the crucial element in the university budget-making process. (Perry, 1969:15)

Accordingly the Report included a major discussion of the formula approach for determining the provincial operating grant to universities along with a simplified hypothetical model of its application.

The Perry Committee concluded that a new intermediary should be established in British Columbia and further that:

the new intermediary should have the responsibility for representing the system in its budget discussions with governmental authorities and for distributing such grants (both operating and capital) to the institutions in the system. (Perry, 1969:3)

In 1973 a University-Government Committee was struck within the Ministry of Education to examine the forms of university governance "with particular reference to the relationship between the Universities and the Provincial Government". In 1974 this body reported that:

an intermediary body known as the Universities Council is necessary in British Columbia for the reconciliation of public accountability with university autonomy and to ensure a greater sensitivity to social needs in the
development of university education. (Young, 1974:27)
The general thrust of the recommendations were that this
proposed Council should be advisory and persuasive in nature as
opposed to executive and regulatory. The Committee, however,
did recommend that the Universities Council have allocative
powers over operating and capital financing of the
universities. The Committee also recommended that the Council
engage in financial planning by investigating multi-year
budgeting systems.

When the establishment of this new intermediary occurred
in 1974 it did have, as an integral part of its mandate,
advisory power for the determination of the level of provincial
operating and capital grants and regulatory power in the
allocation of the operating grant to the universities. It is
precisely these two statutory powers on which this study
focuses in its examination of the Universities Council's
performance in financial decision-making.

Although the study focuses on the financial decision-
making role of the Universities Council, it is essential to
have some view of the general structure and powers of the
Council. The specific details of these matters are described
in the University Act (Appendix A). An abridged description
follows, and a brief account of its emergence is given in
Chapter III.

The Universities Council of British Columbia was
established by statute in 1974 with defined "rights, powers,
duties and liabilities" which for reference purposes will be
said to constitute the formal definition of the Council's role in government-university relations. The Council consists of eleven persons, including a designated chairman, appointed by the Lieutenant-Governor-in-Council. A vice chairman is elected annually by the members to act as chairman during any periods of incapacity of the chairman to discharge his duties. Members are appointed for three year terms, renewable once. The chairman's initial term of three years is renewable twice for periods of five years. Certain categories of people are prohibited from serving as Council members: members of the federal parliament and the provincial legislative assembly, employees or students of the universities, public servants in the Ministries of Education, Finance, or Universities, Science and Communications, and non-residents of the province. A member holds office until a successor is appointed, unless the appointment is revoked or death or resignation occurs. A person appointed to fill a vacancy holds office only for the remainder of the term for which the predecessor was appointed. The Act also declares that a vacancy on the Council "does not impair the authority of the remaining members...to act" [Section 64(10)]. Six members constitute a quorum and the chairman holds the deciding vote in the event of a tied vote. Expenses incurred in the discharge of Council business are reimbursable by Council and remuneration for services is set by the Lieutenant-Governor-in-Council.

The Universities Council is a corporation and an agent of the provincial crown and since October 1978 possesses financial
autonomy over its operating funds. It is, however, dependent by statute upon the Lieutenant-Governor-in-Council for the appointment of an executive director and for the definition of the incumbent's positions, duties, remuneration and other terms and conditions of employment. In all other matters the Council alone is in a position to provide a system of organization for the conduct of its activities in government-university relations.

The Council is annually required to report to the Minister for both its internal finances and the universities' financial operations. In this latter regard the Council is specifically required to report on essentially three matters: the universities' requests for operating grants for the next fiscal year, the operating grant recommended by the Council for the universities in the next fiscal year, and a statement of the allocation of the current year's operating grants made by the Council to the universities, including a resume of all the funds provided by the provincial government. The minister in turn is accountable to the Legislature in respect of the Council's financial reports and accordingly is required to submit them to the provincial Legislature within a prescribed time limit.

In accordance with the accepted convention of university autonomy in Canada, the Council's powers are circumscribed in the following manner:

...the universities council shall not interfere in the exercise of powers conferred on a university, its board, senate and other constituent bodies by this Act respecting (a) the formulation and adoption of academic policies and
standards;
(b) the establishment of standards for admission and graduation; and
(c) the selection and appointment of staff. (Section 70)

Various sundry sections of the Act address Council activities: both open and closed meetings are permitted, members and staff are protected from personal liability in the performance of their duties, with approval of the Cabinet it may own and dispose of property and with ministerial approval it may enter into agreements with assorted governments, public agencies, people and associations and may on its own decision conduct inquiries and examine people under oath.
This chapter is divided into two parts: government-university relations and university costs and financial behaviour. Each section concludes with a summary of the implications for an intermediary in higher education as revealed in the literature review.

GOVERNMENT-UNIVERSITY RELATIONS

The question is sometimes asked 'Whose side is the University Grants Committee on?' This question misunderstands, in our view, the realities of our function. We are not on any 'side'. We are concerned to ensure that a vigorous and creative University life prospers in this country without interference from the Government of the day and at the same time to ensure that the taxpaying community, represented by Parliament and the Government, gets a proper return for its money in this field of considerable public expenditure.

(U.G.C. Report 1968)

In examining the conceptual role of an intermediary to advise the state about the requirements of university funding it is important, at the outset, to note the fundamental basis upon which British and Canadian parliamentary governments operate with respect to public finance. Similarly, the special view in which universities are held in these two countries must also be briefly defined. The nature of public finance can be simply stated: governments acquire income by levying taxes on the electorate; subsequently, the elected representatives of the people assembled in Parliament approve the budget or
proposed expenditures of the government of the day. In return for this approval, a measure of accountability is exacted by Parliament from the Government ministries who spend the money. In terms of the special view of the universities, it is generally accepted that in order for universities to carry out their mission, the optimal environment requires that each university be self-governing, free to determine the subjects of both teaching and research, to appoint its own teachers and researchers and to develop and apply its own criteria for the admission and graduation of students. Thus the democratic basis for public finance coupled with the special view of the autonomy of universities establishes the broad limits of an intermediary's responsibilities in government-university relations; namely, to be accountable to government for the expenditure of public money by the university and to protect the university's autonomous functions from unwarranted government interference.

That a realm of government-university relations exists at all is evidence of the fact that each party maintains an interest in the activities of the other. Today, government is interested in universities, generally, because of their contribution to the enlightenment of society but, specifically, because of their training of highly qualified manpower, whereas university interest in government focuses mainly on the financial support which government supplies to institutions providing a public service. That the state's interest in university education is not properly constrained to monetary
matters, has been pointed out by Berdahl as follows:

The state has a legitimate interest in the overall policies of the universities...whether or not public funds are involved. The universities should form their educational policies with sensitivity for national needs, and, if subsidized by public funds, after consultation with the appropriate governmental officers. In case of disagreement over ends or means between the state and the universities, the universities' judgement should prevail, with the understanding that they have the responsibility of demonstrating the wisdom of their decisions within a reasonable time frame, and subject always to ultimate political intervention in the face of a major breakdown in higher education. (Berdahl, 1959:193)

Berdahl has further distinguished two types of autonomy to which the state's interest can extend: (i) substantive autonomy, which relates to the goals, policies and programs that an institution chooses to pursue, and (ii) procedural autonomy which relates to the techniques chosen to achieve these goals. He argues that generally the state's procedural controls, which normally accompany the expenditure of public money, are marginal and not necessary for accountability and the safeguarding of the public interest. Such controls ought to be limited to those demonstrably required for good budget practices.

Berdahl further argues, respecting those substantive controls which are those related to decisions about educational goals and policies in higher education, that the state's legitimate interest should be expressed as "a conscious act of state sovereignty...through a suitably sensitive mechanism". The questions immediately arise in what substantive decisions should the state participate and through what sort of mechanism? There are three fundamental points to be noted from
Berdahl's work in relation to this study. First, there is a legitimate, if vaguely defined, role for the state in the higher education policy. Second, the state's provision of public funding is integrally related to its role and third, if an intermediary is to be charged with a financial decision-making role it must be cognizant of the state's interests.

Having noted the extent of the state's broad interest in higher education it is recognized that the operative nexus of the state's relations with the universities remains the provision of financial resources. This relation may be viewed as a "social contract" entered into between government and university with each party having roles to perform which are broadly defined by respective sets of responsibilities for the maintenance of the relationship. In discharging their responsibilities and thereby in performing their roles, both government and universities must meet a certain number of requirements in terms of the practice of modern democratic governance.

On the government's part, a responsibility is undertaken to sustain the supply of financial resources for the provision of higher education services which are determined largely by the universities and in part by the government. The requirements associated with this responsibility include:

assurances that operating and capital funds provided from the Provincial revenues will be wisely used for the benefit of the Province, and...continued freedom to decide for itself in the light of actual budget circumstances, rather than by statutory authority, what operating or capital funds should be supplied from Provincial revenues to the Universities. (Perry, 1969:5)
The university on the other hand, assumes responsibility for the development and delivery of its services and in turn requires:

an assured source of operating and capital funds reasonably matched with enrolment and cost increases...an equitable treatment as between universities, and...an opportunity to engage in long range planning. (Perry, 1969:5)

These conditions lend a special character to government-university relations. Indeed, they give rise to the need for reconciling parliamentary accountability for public expenditures with university autonomy for the assurance of academic freedom. Such a reconciliation must take into account the requirements of each party and in doing so, as Lord Robbins has pointed out, both government and university are not qualified to perform the task.

With respect to government's disability, Robbins states:

The decision to spend immense sums of money on higher education is essentially a political decision and no sensible person would wish to deny the right of ministers to lay down broad principles of policy and administration in this connection...The evaluation of the performance of particular institutions and the allocation of funds between them is a function which, if it is to be discharged efficiently and without danger to academic freedom, needs to be done in an atmosphere from which political considerations are absent. (Robbins, 1980:90)

Lord Robbins has also succinctly explained why universities individually are ill suited from assessing and reporting directly on their financial affairs to the Government as follows:

...it is unlikely that separate consideration by independent institutions of their own affairs in their own circumstances will always result in a pattern that is comprehensive and appropriate in relation to the needs of society. (Robbins, 1980:13)
It was in recognition of these disabilities on the part of both government and university that a constitutional invention was created in the United Kingdom in 1919 when the University Grants Committee was interposed in the relationship. Its general purpose was to effect the reconciliation of public accountability and institutional autonomy, with the specific instruction of its founding treasury minute reading:

> to enquire into the financial needs of university education in the United Kingdom and to advise the Government as to the application of any grants that may be made by Parliament towards meeting them. (Owen, 1980)

Consequently, it is clear from the outset that the appropriation and expenditure of public funds are seminal factors in government-intermediary-university relations.

Universities, like all organizations, operate in a fundamentally political environment. "Politics" in this context is defined as the resolution of conflict based upon the authoritative allocation of resources. Hence government-university relations are "political" because they are characterized by conflict or adversarial relations caused by two basic factors. First, each university pursues goals consistent with its own perception of its self-interest which is ultimately defined as institutional survival. These sets of institutional perceptions may conflict both with each other and with the government's interests for, as Robbins observed, they may not be "appropriate...to the needs of society" (Robbins, 1980:13). A raison d'être of the intermediary is precisely to make judgements to assist in the resolution of such political conflicts.

The second factor which establishes political relations in
the university sector is the scarcity of resources available to support institutional activities. There are two political consequences of this scarcity. In the first instance the basic determination of the total amount of public resources to be appropriated for the universities collectively is a political decision made by the government of the day in light of the competitive claims of other public sectors. In the subsequent allocation of this amount among the universities, institutional self-interests create a second competitive or political situation for resolution by the intermediary.

The implication of this political environment for the intermediary is that it must develop an independent perception of the issues and this is made more difficult because it cannot rely, for fear of bias, solely upon the submissions of either the government or the universities. This responsibility to maintain objectivity obliges the intermediary to develop its own information system and to employ its own analyses in support of its decision-making.

This requirement for information in order for an intermediary to make its own decisions is not easily satisfied. In intermediary-university relations a virtual monopoly of information is held by the institutions. This results from the fact that the bureaucracy which exercises control over the provision of a service maintains a monopoly on much of the information required for the evaluation of that service. While competition for resources may cause a bureaucracy to release information in support of its objectives, the adversarial
nature of the competition does not necessarily ensure that such information will be in a form capable of comparative analysis by the intermediary.

To a significant degree this is indeed the case in the presentation of the universities' operating requests in B.C. where lack of comparability prevents inter-institutional analysis in many areas.

In such circumstances the intermediary may have the power to request information, as does the Council (University Act, section 69j), but it is often frustrated by the institutions' claims concerning the difficulty in providing it in comparative form. Additionally, an intermediary is handicapped if it must assume the onus for formulating information requests requiring a detailed level of response in the absence of comparative budget information. Perry has succinctly described the prevailing situation:

Is there a way of organizing the data about the three universities...in such a way that important 'differences' could be spotted readily and judgements made? Take, for example, the budget information...Would it be possible to transform the 'dollar totals' into recognizable 'policy-indicators', so that Council members could gain their own perspectives of the way the universities appear to be managing their financial affairs? And when financial requests are submitted along with new and emergent programs, would it be possible for the Council to assess the reasonableness of the estimated, additional, operating funds? This has been a somewhat inexact decision-making area. (Council Document* 15)

To improve the Council's ability to make better use of the information provided, Perry has suggested the following general

approach:

By transforming the basic dollar-revenue equals dollar-expenditure relationship into appropriate analytical forms, it is possible to bring policy decisions into view, whether they affect admission qualifications, tuition fees, remuneration of faculty and staff, support services, and so on. The fundamental relationship of equality between income and outgo remains constant, but attention is directed towards the specific decisions that are involved in maintaining that relationship...

Insofar as financial data are concerned, specifically what is proposed is:

that all aggregate dollar data presented to the UCBC should be transformed into a compatible unit form by
1) putting the data in terms of a per full-time equivalent (FTE) student, and
2) also showing the data in terms of a per full-time (FTE) faculty member. (Council Document 15)

Such transformations have been undertaken at Council and the existing information is being brought into compatible form. Yet an intermediary cannot alone be expected to answer all its evaluative questions through the development of a better information system. The university has a definite role to play in these judgemental matters for the intermediary accepts the assumption that an autonomously governed institution can best judge how to allocate resources amongst its internal constituencies. In B.C., the University Act indeed devolves that power of judgement to the universities by proscribing governmental or Council interference with general purpose operating grants ("...a university is not required to use operating grants allocated to a university for any particular aspect of its operations," Section 69f).

Accordingly the onus for providing information about the formulation and results of those judgements rests appropriately
with the individual institutions. In its annual budget report, for example, the University of Toronto presents information respecting the policies, plans, assumptions and judgements on which its decisions are founded. It also provides guidelines which indicate the general directions of the budget development, that is, the general policies, procedures and priorities to be followed in developing the budget and which therefore provides the context for budget review (University of Toronto, 1982:1). It is precisely this kind of information which an intermediary requires as a basis for its evaluation of institutional financial requirements.

It is fair to conclude that for the purposes of formulating an independent perception of the financial issues besetting universities an intermediary must maintain its own information base and develop an internal capacity to analyze this information. It must also persuade the universities to the extent possible to disclose relevant information about their financial decision-making.

The formulation by an intermediary of an independent perception of the universities' financial requirements is, however, constrained by the limitations of the available analytical methods per se. This factor affects both government and intermediaries, the former in its decisions to appropriate resources among the public sectors and the latter in its advice to government about the requirements of the higher education sector. Dobell and Zussman have observed that in making these types of decisions there is an "unavoidable absence of
definitive criteria for resolving problems of public choice" (Dobell, 1981:415). Methods employed to evaluate public services are generally subject to serious limitations. Drury states:

evaluation is subject to analytical limits arising out of the lack of analytical criteria or relevant information to guide the key choices to be faced. (Dobell, 1981:404)

In commenting on the results of program evaluation undertaken in government Dobell observes that "even the most dedicated do not argue that evaluation efforts have led to decisive results or significant government action" (Dobell, 1981:406). A number of factors have been offered in explanation of this situation including, for example, lack of agreed theory and purpose, problems of implementation and misdefinition of the nature of information needs. A more important contributing factor, however, is the fact stated by Zussman that:

there has never been any demonstrable link between performance, measured by efficiency and productivity indicators, and levels of compensation... at the executive level either in the private or public sector. (Dobell, 1981:408)

In the university sector it is fair to say that any evaluation process is likely to be performed in an adversarial context and designed to maximize the cause of the institution undertaking it rather than to analyze any system of institutions. For, as Dobell notes,

Within such a framework of advocacy the bureaucratic incentives do not press in the direction of continuing searching evaluation. (Dobell, 1981:413)

It is indeed a brave university administration that would conduct such a process, and a braver one still that would
release the evaluative results when the chances are that negative results in terms of the institution's performance may well result in a reduction in funding.

Dobell concludes that:

evaluation to appraise the continued validity of program goals, productive efficiency and resource costs requires useable knowledge...But useable knowledge in this context will not, in general, come from the evaluation processes...or indeed, from any established body of conventional technique based on generally acceptable professional principles. (Dobell, 1981:418)

This usable knowledge takes the form of values, perceptions and political judgements, often supported by, but not necessarily determined by, evaluation information. It is clear then that there must be an accommodation made to the limits imposed by analytical approaches. Under these circumstances questions arise for an intermediary respecting what can reasonably be known about university financial decision-making and the degree to which formal evaluation of budget information can be expected to provide such knowledge.

**SUMMARY OF THE IMPLICATIONS FOR AN INTERMEDIARY**

The preceding review of the literature concerning the normative role of an intermediary in government-university relations discloses the following three implications for consideration in the examination of the Universities Council's financial decision-making.

First, both government and universities maintain legitimate interests in higher education and the potential for
conflict gives rise to the constitutional invention of an intermediary body. Hence, an intermediary's role must not be wholly characterized as one of advocacy for the universities nor of agency for the government because an intermediary bears responsibility to both parties. It must, therefore, develop an independent perception of the issues in its decision-making.

Second, in order to gain an independent viewpoint an intermediary requires an independent information system which includes knowledge about the interests in and policies for the operations of higher education which are held by the government and the universities.

Third, there is a limitation posed by the available analytical methods on the extent to which university financial decision-making can be analysed.

Summed up, the intermediary is obliged to persuade both government and the universities to formulate and disclose their perceptions about their interests and the decisions taken in pursuit of them in higher education. Persuasion is necessary because the political dynamics of the environment works in other ways against such disclosure. The analytical limitations of formal evaluation processes in the public sector further oblige an intermediary to bring the major parties at interest into its confidence and through persuasion seek "useful knowledge" from them.

It is clear that the intermediary's usefulness in advising the government about the financial requirements of the universities depends upon two primary functions: (i) its
success in the use of persuasion to gain this "useable knowledge" and (ii) its ability to develop this information into a defensible independent perception of the financial issues.

UNIVERSITY COSTS AND FINANCIAL BEHAVIOUR

The examination of an intermediary's decisions in the performance of its financial decision-making role in government-university relations requires an understanding of the nature of university costs. The reason is that university financial behaviour places limitations upon the analytical approach employed by an intermediary to determine the funding requirements of the institutions.

Within the general political environment of government-intermediary-university relations, universities operate in financial patterns which are peculiar to their roles as institutions of higher education. This section attempts to define and explain this behaviour with particular reference to the implications it has for the evaluative function of an intermediary. The work of two scholars, Garvin and Bowen, is used in this analysis.

Garvin has developed an economic model of university behaviour involving the concept of utility maximization. In this model, two factors are involved in the determination of the university's utility function. The first underlying factor is defined as "goal consensus". For a university which has two
sets of decision-makers, the administration and the faculty, a consensus on goals is necessary for inclusion in the utility function. The second factor follows logically in that "those activities which enhance an organization's probability of survival are likely to be pursued".

Having set out the factors underlying a university's utility function, Garvin proceeds to define that function as including three components: institutional prestige*, student quality and student quantity.

Garvin explains, citing supporting studies, that the pursuit of prestige satisfies the requirement of a consensus goal in that it is a feature of the activities of departments and individual faculty members. It also meets the second requirement as a means of ensuring institutional survival because prestigious institutions and faculty members tend to attract more research and operating income through grants and student fees.

Student quality is also sought as a goal of institutional prestige. Students who are more highly qualified academically raise the level of graduate and research work, contribute to a more stimulating teaching situation and enhance an institution's reputation. Those that become recognized scholars

* The sense of institutional prestige is captured in the following observation by Christopher Jencks and David Riesman quoted by Garvin:

The typical president's greatest ambition for the future is usually to 'strengthen' his institution, and operationally this turns out to mean assembling scholars of even greater competence and reputation than are now present. (Garvin, 1980:22)
reflect well on their teachers' prestige. The third factor in Garvin's university utility function is student quantity as representative of institutional commitment to a philosophy of service which involves granting greater accessibility to the public. Increased enrolment also tends to attract greater government resources in both the operating and capital sectors. It is noted, however, that expanded student numbers may result in trade-offs in quality, for example, in lowered admission standards.

These three factors, institutional prestige, student quality and student quantity, comprise the utility function which universities attempt to maximize in this economic model. Garvin contends that university financial behaviour regarding resource allocations can be interpreted by the model according to calculations which equate marginal utility value and marginal costs to determine the optimal trade-offs in the following manner:

In utility terms: for example, the hiring of an eminent literary scholar may be deemed more important than that of a prestigious geographer because of the greater contribution to overall institutional prestige made by the former, while in monetary terms, a prestigious biologist may be considered more desirable than an equally prestigious mathematician because of the former's ability to tap a larger pool of outside grants. (Garvin, undated:10)

While Garvin's utility maximization model has a theoretically logical quality which helps explain the behaviour of universities at the broadest level, its attraction diminishes rapidly when it is applied to specific real cases. Garvin admits that it is but a supplementary view to be applied in some undefined but joint way with collegial, bureaucratic and
political models developed by others.

The concept of utility maximization embodies both the model's strengths and weaknesses. The latter arise because the utility function is defined too restrictively. For example, it is unlikely, in Garvin's example, cited above, that the trade-offs in faculty hiring decisions are focused on two prestigious scholars from differing fields. A more representative situation would be a trade-off calculation between the costs of hiring the faculty member and the costs of reducing some other item of expenditure in the department or faculty in which the appointment is to be made. In this case the university would, typically, attempt to hire both prestigious faculty members. Alternatively it can be also suggested that the university's first option would be to explore the possibility of raising more revenue in order to take on the desired new faculty without having to make any reciprocal expenditure trade-off at all. Indeed Garvin in a footnote implicitly recognizes the desirability of this option when he quotes Anthony Downs:

Growth tends to reduce internal conflicts in an organization by allowing some (or all) of its members to increase their personal status without lowering that of others. Therefore, organizational leaders encourage expansion to maximize morale and minimize internal conflicts. Every bureau's environment changes constantly, thereby shifting the relative importance of the social functions performed by its various parts, and resources appropriate to each part. Such shifts will be resisted by the section losing resources. But these dissensions can be reduced if some sections are given more resources without any losses being experienced by others. (emphasis added) (Garvin, 1980:47)

This suggestion raises the possibility that the utility function should be expanded to include a revenue generation
factor: namely, that a university in its attempts to increase institutional prestige, to attract highly qualified students and more of them, seeks to maximize its revenues to accomplish these goals because the costs of these efforts are determined by the revenues available.

A revenue generation factor is advanced by Bowen in a concept entitled "the revenue theory of cost". It means that the greater the revenues of a university the greater the costs, for institutions raise all the money they can and spend it all. Bowen's theory and its underlying principles are based upon a number of large-scale cost studies on American universities and, the theory therefore, has the advantage over Garvin's model of an empirical basis.

Bowen suggests that there is a set of laws which explains the financial behaviour of universities, namely, that:

1) the dominant goals of a university are educational excellence, prestige and influence;

2) in the quest for these goals "there is virtually no limit to the amount of money an institution could spend for seemingly fruitful educational needs (and expenditures once admitted into the budget become long term commitments from which it is difficult ever to withdraw)";

3) each institution raises all the money it can;

4) each institution spends all it raises (except for possible accumulation of small reserves and endowments);

5) the cumulative effect of the preceding four laws is toward ever increasing expenditure (with no incentives to
parsimony or efficiency). (Bowen, 1980:19)

These laws partially illustrate the dynamics of the political environment of government-university relations. Their operation establishes the competitive behaviour for financial resources.

The implication is that constraints in university expenditures cannot be expected to emanate from within the institutions but rather will result from externally imposed limits. As Bowen points out with respect to the argument for improved efficiency through better management techniques, measures such as energy conservation actions, etc.

...might reduce costs, but they would do so only if revenues were cut commensurately. If revenues were not so reduced, any saving would simply be expended elsewhere in the institution and no net saving would occur. Unit costs are determined not by changes in efficiency but by changes in revenues. (Bowen, 1980:17)

This point can be illustrated in the university system of British Columbia. Under the University Act each university in accordance with its resources has a duty "to provide instruction in all branches of knowledge" [Section 46(b)]. The University of British Columbia* has acknowledged this duty in its statement of mission and has observed legitimately that the fulfillment of such a responsibility requires the university to ensure among other things "that every effort is made to recruit and develop faculty of the highest quality" (UBC, 1979:25). This view accords with Garvin's proposition that the pursuit of

*UBC is selected for illustrative purposes only; either the University of Victoria or Simon Fraser University could be substituted to make the point equally well.
prestige, in this case "faculty of the highest quality," forms part of UBC's utility function. It also illustrates Bowen's law that the amount of money an institution could spend for legitimate academic purposes, in this case to secure the highest quality faculty to teach all branches of knowledge, is virtually limitless. Under such conditions one would have to look elsewhere for grounds on which to expect UBC to acquiesce in, much less to propose, any action whose effect would be to reduce its ability to offer new and enriched programs taught by highly qualified faculty. In fact such voluntary action could be fairly argued to be tantamount to abdication by UBC of its duty and mission. It follows from this position that the only circumstances in which one could expect voluntary inter-university academic cooperation at the institutional level are those in which an individual university has decided to settle for "half a loaf". In such a situation an intermediary cannot count on the universities to promote actions on the basis of the well-being of the system of universities because such decisions may have an adverse effect on the self-interest of an individual institution. Hence the onus is likely to fall mainly on the intermediary to make judgements on behalf of the universities collectively.

Under these conditions there are two implications respecting the financial decision-making of an intermediary. First, it is unrealistic to expect the universities individually to develop budget requests based upon voluntarily reduced overall expenditures (inflation aside). Such
reductions, if sought, will come about for all universities only when the province appropriates a reduced general purpose operating grant, or at an individual university when an intermediary provides a reduced allocation of funds.

Second, if a university requests additional operating revenues it must assume the responsibility for demonstrating that the resulting increased unit cost will affect favorably the performance of the institution.

There are several other implications for the role of an intermediary that flow from Bowen's basic findings about how much universities cost and how much they should cost. The four findings relevant to this study relate to the following matters:

1) the diversity of university costs and their internal institutional allocations;
2) the basis of "need" in university costs;
3) the relation between educational cost and outcomes; and
4) the guidelines for what higher education should cost.

These findings will now be described in detail.

Diversity of Cost

In attempting to answer the question concerning how much
universities spend in terms of educational cost* Bowen found that "amazing" and substantial cost differences persist in the total per student cost of university education and that
differences in expenditures remain even when only educational costs are considered and when the institutions being compared seem to have similar missions, location and size and to be rendering services of similar quality. (Bowen, 1980:114)

He concludes that such diversity in unit costs, that is in the expenditures of universities per student can only be explained in terms of the revenue theory of cost.

Bowen also finds that among comparable institutions
the differences among institutions in the way they allocate their resources internally are also remarkable. On the basis of the data, one is hard put to identify a pattern of allocation that could be called normal. (Carnegie Council, 1980:414)

This great diversity in educational expenditures both in terms of the amounts spent and the allocation of the amounts suggests that there is no empirically based general model to determine what particular universities cost. Bowen's basic thesis is that the costs are inextricably related to what the

* Bowen defines educational cost:
Educational cost refers to current expenditures after excluding outlays for organized research and public service, a prorated share of overhead cost attributable to research and public service, and outlays for the operations of auxiliary enterprises such as residence halls, dining facilities, student unions and teaching hospitals. What remains after these exclusions is current expenditures for the education of students. These include outlays for instruction and departmental research, student services, student financial aid paid from institutional funds, and a prorated portion of expenditures for academic support facilities such as libraries, computers, administration and plant operation and maintenance. This remainder is called educational cost. (Bowen, 1980:115)
universities decide to spend (which, in turn is determined by the amount available for expenditure).

Need

The determination of unit costs in universities is often based on a rather ill-defined concept of "need". But as Bowen observes on the need argument:

To conduct education of a satisfactory quality...a certain ratio of faculty to student, or an appropriate salary scale...etc. are needed...Because higher education is conducted at so many different levels of expenditure and with so many different allocations of resources, however, there is no precise need that can be objectively defined and defended. (Bowen, 1980:16)

This finding suggests that in order to argue need as a basis for a request for funding the onus is upon the university to demonstrate that a benefit can be attributed to increased financial resources. An intermediary would then be in a position to make decisions based upon comparative benefits rather than upon the ill-defined concept of need. An alternative approach to discerning a more objective evaluation of need would also place the onus for demonstration upon the institutions. This would involve the notion of trade-offs among "needs" which can be pursued by establishing constraints upon potentially available resources and asking the universities to determine the priority of their needs - and hence to define a degree of need.

Outcomes

Bowen observed that the relation between educational cost
and outcomes is tenuous:

so little is known about the relationship between the amount of resources and educational outcomes. The depth of this ignorance is indicated by the almost universal tendency to judge institutional results or quality in terms of inputs rather than outputs and to assume without evidence (emphasis added) that more inputs somehow will inevitably produce commensurately greater or better results. (Bowen, 1980:121)

The indications, however, are that increments of money yield relatively small increases in outcomes for

...institutions with about the same financial resources apparently produce quite different educational results. So it must be evident that there is more to excellence in education than money and that it behooves institutions to learn to be more efficient in converting resources into educational benefits. (Carnegie Council, 1980:416)

institutions know little about the relationship between their expenditures and their educational outcomes, and it is easy to drift into the comfortable belief that increased expenditures will automatically produce commensurately greater outcomes. Under these conditions, the unit costs of operating...universities are set more largely by the amount of money institutions are able to raise per unit of service rendered than by the inherent technical requirements of conducting their work. (Bowen, 1980:15)

and

The conclusions from the several attempts to correlate institutional expenditures with educational performances are highly tentative...nevertheless some modest references are sufficiently plausible to put the burden of proof on those who would dispute them. (Bowen, 1980:166)

Bowen's findings about the relation between educational cost and outcomes include the following:

1) institutional affluence is probably correlated with educational outcomes in the sense that, with many exceptions, affluent institutions appear to generate greater outcomes than impecunious institutions;

2) the coefficients of correlation between unit cost and outcomes are not very impressive. The variance among institutions is substantial. Clearly some institutions of lower cost perform as well as or
better than other institutions of higher cost and these cost differences are in many cases substantial;

3) it seems likely (though not proven) that increase in expenditures per student unit are cost-efficient though seemingly small, when the benefits are considered as accruing over the lifetime of the students. Small percentage increases in benefits may well justify substantial expenditures. (Bowen, 1980:116)

His conclusions on these findings are important for an intermediary's evaluative function:

These conclusions, even though tentative, are of the utmost significance. They imply that many affluent institutions could perform as well, or nearly as well, with less money or that many institutions could achieve greater results with the same money. They imply also that increases in affluence do not automatically result in improvements in performance, as is so often claimed. Yet, they do suggest that on the average, but with many exceptions, money does make a difference. As the Carnegie Commission concluded...

"To suggest that differences in expenditures per student are largely explained by variations in the relative capacities of colleges and universities to attract income is not to deny that relatively high expenditures for students are likely to be associated with comparatively high quality... But this does not necessarily mean that cost differences among institutions - or among particular programs within institutions - invariably reflect differences in quality." (Bowen, 1980:167)

There are obligations on the part of the university and of the intermediary to relate outcomes to cost. The university's management is responsible for the decisions which will result in producing the optimal outcomes that are commensurate with the costs. The intermediary's task is to examine the overall quality of these management decisions in making its evaluation of the financial resources required to implement the decisions. Information about outcomes "expressed in terms of more or less" are essential for an independent examination of the financial
issues. Unfortunately for intermediaries, Bowen's general conclusion about educational outcomes does not bode well for obtaining such information. He states:

> At present institutions know very little about their results and next to nothing about the effects of changes in their procedures and methods on the results. (Bowen, 1980:169)

Guidelines

In answer to the question "what should higher education cost?" Bowen's findings are inconclusive. The great variance between expenditure and resource allocation in universities is so large and relations between expenditure and outcomes so tenuous that there is not much guidance offered by Bowen's work on this question. Within the higher education system there are few, if any, indicators which relate expenditures and benefits in terms of public interest (Bowen, 1980:20). This finding raises a serious problem for any intermediary charged with advising government on the financial requirements of a university system. Bowen's conclusions reinforce the observations, discussed earlier, of Dobell and Zussman regarding the absence of criteria for determining public choice. On this point, however, the intermediary does not bear the primary responsibility to act - for that duty belongs to government. In order to advise government on the more specific matter of the financial requirements of the universities the implication here is that the intermediary must rely on the integrity and competence of the university managers and judiciously examine the general quality of their decision-making.
SUMMARY OF THE IMPLICATIONS FOR AN INTERMEDIARY

University financing operates in a manner which determines the way in which the universities perform their role. The works of Garvin and Bowen demonstrate that universities maximize their individual utility functions supported by the operation of revenue generation activities. This results in each institution being obliged to make financial decisions in light of the benefits which may accrue to it as an institution rather than as a member of a system of universities. Operating as discrete units, universities raise all the money they can and spend all they raise.

Two implications for an intermediary follow. First, constraints on university expenditure can only be realistically expected to emanate from decisions made external to the institutions, namely by the government or the intermediary or both. Second, the onus is on the universities to substantiate claims for increased revenues and these requests ought to be based in terms of demonstrably favourable effects on institutional performance.

The foregoing studies on university financial behaviour have disclosed five points: (i) no apparent cost norms exist for universities and great diversity in costs exists; (ii) no normal pattern of funding allocations within universities exists; (iii) no precise and objective definition of university "need" can be made; (iv) no definitive knowledge exists about the effects of resource allocation decisions on educational
outcomes; (v) no guidelines are currently available to determine what universities ought to cost.

Three implications follow. First, an intermediary cannot rely upon any generally accepted empirical models for determining the financial requirements of the universities. Second, an intermediary should focus on the analysis of benefits rather than asserted needs when assessing financial requests of the universities. Third, in the absence of solid information on educational outcomes and guidelines on cost, an intermediary should consider the quality of university decision-making about resource allocation.
Having reviewed the pertinent literature on the role and experiences of intermediaries in general, and before examining the actual experiences of the intermediary (the Universities Council), the focus of attention shifts to a preparatory step: namely, the task of constructing simple, descriptive models which may help to identify some of the elements recognized to be present in the interaction between government, universities, and intermediary in this Province.

Put in abstract terms, this study is part of a more general enquiry into the question: How are the interactions between the major entities in a small university system affected when an intermediary body is interposed? In order to establish reasonable boundaries for the study, it is first necessary to outline a possible representation of the network of interactions in the university system itself.

From an hierarchical perspective the interactions in the system can be seen to occur at various levels. At the first level are the major participants (the collectives, described by upper case letters below). Broadly defined these include:

1. The Government of British Columbia [the G] - itself a member of a federal system of government - which is represented by the political party, or coalition, controlling at the time a majority of members in the elected Legislative Assembly. For convenience, the late Mr. W.A.C. Bennett's administration is
identified as $G_1$, Mr. D. Barrett's administration as $G_2$, and the present Mr. William Bennett's administration as $G_3$.

Within each government (as a collective) one can also distinguish interactions occurring at the level of the Premier, of the Cabinet, of the Ministers directly involved with university affairs, and with Ministries indirectly affected. Similarly, the notion of levels of interaction can be extended to include the officials according to their rank. For convenience, these various other levels of interaction may be stipulated in lower case letters, such as $g_1$ and $g_2$. Simply to illustrate the concept, in the sketches below the Government of British Columbia is denoted as: $G, g_1, g_2, g_3...g_n$.

2. The next major entities are the three public universities: the University of British Columbia [U], Simon Fraser University [S], and the University of Victoria [V]. Each of these institutions derives its powers to function from statute enacted by the Legislative Assembly, and each has a symbiotic relationship with the Assembly. Considering the university - as a collective - to be at the first level (uppercase letters), interactions occurring at the level of the Board of Governors, the Senate, the President, the Faculty, and the Students could all be appropriately designated in lower case letters. The University of British Columbia might then be denoted as: $U, u_1, u_2, u_3...u_n$, Simon Fraser University as $S, s_1, s_2, s_3...s_n$, and the University of Victoria as, $V, v_1, v_2, v_3...v_n$.

3. The fifth major entity in the system is the intermediary, the Universities Council of British Columbia [C]. Created on
the initiative of the government \((G_2)\), the Council derives its powers from statute enacted by the Legislative Assembly, and, like the universities, it too has a symbiotic relationship with the Assembly. If the Council as a collective at level one is denoted by \(C\), then the Chairman might be identified as at \(c_1\), the other Members as \(c_2\), and officials as \(c_3\). The Council might then be denoted as: \(C, c_1, c_2, c_3\ldots c_n\).

The full interactive network of the system might then be displayed either as in Sketch One or Sketch Two.

The essential difference between these two administrative designs is that the direct lines of communication between the government \(G\) and the three universities, \(U, S,\) and \(V\) are kept open in Sketch One, but are closed (or muted) in Sketch Two—Where designated communications are routed only through the intermediary \(C\). The significance of this difference is that in Sketch One each university has two avenues open for the exchange of ideas with elements of the governmental entity (even though the subject matter may be, nominally, assigned to the custody of the intermediary). However, in Sketch Two, there is only one official line of communication open to the universities, namely, through the intermediary \(C\): this would apply when the subject matter has been nominally assigned to the domain of the intermediary.
Using Sketch One as a descriptive model to illustrate possible interactive effects, it is instructive to pose the question: How would the interactions between G and the three entities U, S, and V, be affected by the interposition of C?

In the absence of C, the universities would negotiate directly and bilaterally (or tri-laterally) with G. Insofar as G encouraged negotiations to proceed through various governmental channels (the g's), each university - at both the upper and lower case letters' levels - would presumably endeavour to find means to persuade the government to respond to all or most of the university's expectations. If the governmental responses were judged to be inadequate, the addition of an intermediary might provide a forum in which the universities could expect better outcomes from their representations: insofar as the intermediary failed to perform to their expectations, the universities could revert to their earlier practices and seek to interact directly with the government through some accessible level.

Having no statutory authority with which to control the spending policies of the self-governing universities, the government, G, in the absence of an intermediary could only exercise a controlling influence through the annual grants supplied for operating and capital purposes. By the creation of an intermediary with statutory powers to influence the size and direction of university disbursements, the government might expect to have a forum in which its reflections might be heeded. And, of course, should the intermediary be
unresponsive to its wishes, the government could resume interactions through other channels.

After the creation of the intermediary, C, the new entity would find itself charged with certain regulatory, synthesizing, and mediating tasks to perform but always subject to a state of uncertainty that could arise from several eventualities.

Firstly, if a well-entrenched, competent intermediary chose to adopt a quasi-judicial role in the system, it could attempt to do so by exercising its limited statutory powers in a heavy-handed fashion. This would mean, in effect, withdrawing a proportionate degree of independence-of-action from the universities. Although such a posture might fit the taste of one government, successive governments might prefer to have an intermediary that relied more on persuasion (light-handed administration). From the universities' perspective, a quasi-judicial body, which could evidently control some aspects of their performance but had no authority to direct the actions (particularly financial) of the government, could well appear to be a one-sided intrusion into the university system.

Secondly, perceptions and expectations change over time; governments and the occupants of pivotal positions change. It may be assumed, therefore, that as time passes there would be some wavering in the willingness of the major entities to continue to accept formal understandings consummated at an earlier date, or to persist in carrying out policies for which support was lagging.
Thirdly, if any of the major entities was dissatisfied with the decisions, or responses of C, the dissaffected party (or parties) might seek to circumvent or modify the offending outcomes by returning to pre-intermediary forms of interaction. The lines of communication in Sketch One between G and U, S and V remain open, even though C has been inserted as an intermediary.

Fourthly, another cause of uncertainty could be the perceived capability of the intermediary to process information and to perform evaluative/adjudicatory functions. Should the intermediary be judged by any of the other major entities to be weak in these important decision-making areas, a further incentive to discount the judgements of C would exist.

Uncertainties arising from these and other eventualities could compound the difficulties of an intermediary seeking to perform a lasting catalytic role. As displayed in Sketch One (which largely represents the actual state of affairs), the intermediary is an expendable entity whose usefulness to the other major entities (its raison d'être) is constantly being re-evaluated in the light of their current expectations. From a decision-making viewpoint, the survival of the intermediary would depend upon its ability to devise strategies which would, for the most part, ensure the general acceptance of C's chosen role and decisions by a significant proportion of the major entities in the system. The life-term expectancy of such an intermediary might, then, be long or short depending upon events, some of which would be well beyond its own control.
As a way of reifying the notion of a 'significant proportion', Dr. Perry has suggested that rudimentary indicator representing the degree of support (or acceptance) for the intermediary's (C's) role and decisions might be created by using a simple weighted vote procedure. Let G have 3 votes, and the three universities, U, S, and V, have 1 vote each. The following combinations then clearly reveal the vulnerability of the intermediary.

<table>
<thead>
<tr>
<th>Votes Supporting C</th>
<th>Votes Opposing C</th>
<th>NET SUPPORT</th>
</tr>
</thead>
<tbody>
<tr>
<td>G      U      S      V</td>
<td>G      U      S      V</td>
<td></td>
</tr>
<tr>
<td>Situation I</td>
<td>3  1  1  1</td>
<td>6</td>
</tr>
<tr>
<td>II</td>
<td>3  1  1  0</td>
<td>5</td>
</tr>
<tr>
<td>III</td>
<td>3  1  0  0</td>
<td>4</td>
</tr>
<tr>
<td>IV</td>
<td>3  0  0  0</td>
<td>3</td>
</tr>
<tr>
<td>V</td>
<td>0  0  0  0</td>
<td>0</td>
</tr>
<tr>
<td>VI</td>
<td>0  0  0  1</td>
<td>1</td>
</tr>
<tr>
<td>VII</td>
<td>0  0  1  1</td>
<td>2</td>
</tr>
<tr>
<td>VIII</td>
<td>0  1  1  1</td>
<td>3</td>
</tr>
</tbody>
</table>

This rough tabulation shows that, to have a 'significant proportion' of the major entities constantly accepting its decisions and roles, the intermediary must always have the support of the government-in-power, [the G], and of at least one, and preferably two of the universities.

The intermediary, in such circumstances, would not have much room to manoeuvre, and it would be particularly vulnerable to abrupt, or inconsistent, changes initiated by the heaviest voting entity (the G). Unless supported in its dissent by the G, an individual university would not destabilize the intermediary's relative situation. But the position of the
intermediary would become troublesome if two, or all three of the universities are dissatisfied.

The intermediary is shown to be in an awkward, and presumably vulnerable position, in the hypothetical situations numbers VI and VII. Irrespective of whether it is the G or any one of U, S, or V which takes the initiative to produce the combinations shown in these situations, the net majority of the Council is reduced to a negative. It would be impracticable for the Council to proceed along its originally-intended line of action in such situations.

Finally, to conclude this section, Sketch Two portrays a more rigid form of administrative design. Once created, such an intermediary, C, would stand astride the flow of information (under its domain) passing between the government and the universities. While probably difficult to enforce as a practical matter, all substantive interaction would have to involve the intermediary. In some respects, Sketch Two could be said to represent a small step towards the State of California's university system, with its University of California Board of Regents. Because the Sketch Two model does not describe the prevailing circumstances in British Columbia it is not discussed further.

THE EMERGENCE OF
THE UNIVERSITIES COUNCIL OF BRITISH COLUMBIA

With the transformation of Victoria College into a fully-
fledged university in 1963, the university system in this province reached its present stature with three public universities. During the 'sixties communications between the universities and the Provincial Government [G₁] flowed back and forth with the affected ministries and, particularly, the then Department of Education (later to be called the Ministry of Education).

What might be considered a miniature forerunner of the Universities Council existed in the shape of an ad hoc Financial Advisory Board. This Board had the sole task of dividing the annual provincial grant among the three universities. A separate body, the Academic Board, had a nominal role to play in the collection and dissemination of information about academic standards and to advise on the orderly development of universities. With the passage of time, the Academic Board became completely absorbed with the newly-emerging regional colleges.

Although the universities made an annual budget presentation through the Department of Education, basic decisions concerning the level of financial support to be supplied for university purposes were made by the Minister of Finance; usually in the light of broader considerations before the government. While funds granted for general operating purposes continued to increase during the late 'sixties, the universities - also experiencing growth - considered themselves inadequately financed, especially in respect of their capital requirements. From the perspective of a coordinated academic
development, the prevailing mode of decision-making increasingly came under criticism from the universities (particularly the University of British Columbia). And one university president admitted "after an initial feeble effort at cooperation, the universities have really ignored the Academic Board." (McTaggart-Cowan; 1969:4)

By 1968, the Provincial Government ($G_1$) was prepared to have the subject of government-university relations examined by an independent tribunal. Created by the Minister of Education, the Advisory Committee on Inter-University Relations filed its recommendations (the Perry Report) with the Minister of Education in 1969. Apparently satisfied that the universities' pressure for reform had been largely appeased by the action taken to permit their representations for changes to be thoughtfully evaluated, the Government ($G_1$) decided not to publish the Advisory Committee's report, nor to implement its recommendations - which favoured the innovation of an appropriate intermediary body.

This move permitted the Government ($G_1$) and particularly the Premier - who also held the portfolio of Finance Minister - to carry on as before with the decision-making procedures affecting university finances.

The New Democratic Party, Her Majesty's Loyal Opposition, took the view that the Perry Report must be critical of the Government ($G_1$); otherwise the Report would have been published. Several years passed, then, in the election of 1972, the New Democratic Party became the Government ($G_2$). The
newly-elected Minister of Education promptly released the Perry Report and, over succeeding months, the Government ($G_2$) conducted its own review of the legislation governing the universities. In 1974, a revised university statute incorporated the establishment of an intermediary: the Universities Council of British Columbia (C).

In seeking to understand the intended role of this new intermediary, information was solicited (by interviews) from Ministry officials and other individuals who had been entrusted with the drafting of the legislation. The drafters did not receive explicit directives from the new government ($G_2$). Instead, the drafters took for their main objective the concept of a buffer between the government and the universities. Such a buffer would be expected to accomplish the coordination of university development and, in particular, the prevention of unnecessary duplication. The drafters' perception was that the universities were vying competitively to enter into new academic areas. There was little evidence that the universities conceived themselves as part of a system. Indeed, there were competitive institutional views. The oldest, well-established university sought to shoulder a preponderance of the mandate to respond to the advancing needs of higher education.

Recalling the earlier discussion about administrative design, Sketch Three is included at this point to suggest a possible representation of what the drafters might have expected such a sketch to look like in 1972/73.

The dotted lines between the government ($G$), and the
universities (U), (S), and (V), signify that the direct lines of communication remain open, but insofar as binding decisions in the specific areas assigned to the intermediary, (C), are concerned, the proper interactive channels are the continuous lines linking the government and the universities with the intermediary.

SKETCH THREE

The Universities Council of British Columbia became operative in 1974. Soon afterwards, the Social Credit Party returned to power and a new government, (G^), assumed control of higher education. It is to selective events in the later period, the years 1974 to 1982, that the study now turns.
Chapter Four

ANALYSIS OF COUNCIL'S ROLE IN THE DEVELOPMENT OF THE ANNUAL OPERATING FUNDING RECOMMENDATION FOR THE UNIVERSITY SYSTEM

THE REQUEST FOR FUNDS

As an intermediary in government-university relations, the Universities Council has certain statutory responsibilities respecting the financing of universities. In general terms, the **University Act** empowers Council

...to inquire into the financial requirements of universities and advise the minister of the sums of money required for the support and development of each university and universities generally. (section 69r)

This power of inquiry into university finances is more specifically defined in the **Act** to cover both operating and capital aspects (Section 69p). The Council also has powers relating to the operating finances of educational institutions other than universities that the crown may designate (Section 69t). The Council has additional responsibility for making recommendations for capital funding of university institutions as stipulated within the **Educational Institution Capital Finance Act**. Matters of capital finance for all institutions and the operating finance for specially designated institutions are excluded from this study.

The focus of this section is an examination of the Council's activities with respect to the operating funding of B.C.'s three public universities: the University of British Columbia, the University of Victoria and Simon Fraser
University in the period 1974 to 1982. This section analyses the methods by which the Council discharges its statutory responsibility:

- to receive, review and coordinate the budget requests presented to it annually by the universities or presented at any other time at the request of the Universities Council; to transmit its recommendations, together with the original proposals from the universities to the Minister. (Section 69f)

By examining the way(s) in which the Council develops its annual funding recommendations with respect to the general purpose operating grant of the universities, this chapter identifies Council's problems in taking these decisions.

Prior to 1964 when the University of British Columbia was the only publicly supported university in the Province the procedure for determining the annual operating grant was relatively simple and has been described as involving "direct discussion about grants between the university and a government ministry, and this negotiation settles both the amount of the grant and, of course, the allocation" (Perry, 1969:16). Indeed even with the subsequent establishment of two additional universities, Victoria and Simon Fraser, the procedure amounted to little more than informal discussion between the university Presidents and the Ministry of Education or Premier or both, with no extensive budget submission being required of the universities.

Perry has pointed out some important features of the government-university relations prior to the interposition of the intermediary which are relevant to this examination of the
Council's development of funding recommendations. He notes that:

One of the main causes of dissension between (sic) the three public universities has been due, in part, to a lack of agreement as to what the ground rules were, or ought to be, governing financial support from the public sector. (Perry, 1969:45)

In so far as the intermediary plays a role in assisting the government in the determination of the level of financial support for universities, it too has an obligation to the extent practicable within its statutory mandate to make its criteria in these matters clearly understood.

Perry states further that:

it is obvious that on one critical point - that in which the Provincial Government unilaterally decides the level of financial support - the universities and the Provincial Government are, and may well remain, in conflict... (Perry, 1969:5)

He adds, however, that:

this area of disagreement might be narrowed if certain principles for budgeting, allocating and dispensing funds were accepted. (Perry, 1969:6)

On this matter of devising acceptable criteria or principles for financial decision making, Council's performance will be examined later. The justification for imposing this obligation to act on principle is also laid out by Perry, who states:

Prudent management is...difficult if the universities do not have some financial basis for planning their operations. It is important, then, that the extent to which the universities may rely on government grants should be largely understood. (Perry, 1969:7)

This point has obvious implications not only for an intermediary but also for government. Perry concludes that

the Provincial Government should strive to give effective assurances that at least a minimal level of support for
operating purposes of the universities would be forthcoming. (Perry, 1969:51)

The record of the intermediary and the government in this regard is examined in the following sections.

THE COUNCIL'S APPROACH

In the development of its annual funding recommendations to government concerning the universities' operating grant the Council wrestles with the pre-eminent question whether these institutions are reasonably financed in current circumstances. In responding to this question Council has attempted to design methods of validating the expenditure base of each university. This quest has vexed Council throughout its existence. Indeed its inability to resolve this matter to its own satisfaction is also a serious concern to government and, in particular, to Treasury Board to whom Council's advice is transmitted, with elaboration, by the Ministry.

Council has acknowledged and described its difficulties in this area in its statements accompanying each funding recommendation. Council perceived a problem in analyzing the universities' submissions right at the start of its operations in late 1974 and early 1975. Because of the coincidence of the timing of Council's start-up and the university budget submissions to government in late 1974, Council did not have much time to prepare a recommendation for the 1975-76 operating grant. Consequently it relied on the universities to provide a detailed analysis of specific budget areas. It was clear to Council even from its initial, understandably superficial,
review that a problem existed in relation to the base level of university funding:

Council realizes that open-ended escalation of costs of the university system must be understood and brought under control. Council expects to carry out a series of studies arising from its need for full understanding of the problems and opportunities facing universities in B.C. which will provide a basis for better analysis and control of these costs. (Council document 1)

Council's early ideas for the pursuit of these goals included the rationalization of university budget reporting procedures and the tentative proposition of a three year operating budget framework. In the initial years, however, Council adopted a basic approach for the development of its subsequent funding recommendations by accepting the current year's base budget of each university as the starting point for assessing future requirements. Adjudication focused principally on incremental additions to selected categories of expenditure in the budget bases submitted by the universities. Examples of the selected categories which received recurring cost increments in Council's recommendations included: salaries, supplies and services, enrolment increases and new programs. This approach, with slight variations, continued relatively unchanged for all the recommendations in the period under review, that is, for fiscal years 1975-76 to 1981-82 inclusive. As a supplementary exercise in formulating its 1981-82 funding recommendation, Council attempted to validate the expenditure budget bases in earlier university submissions by comparing them with audited actual levels and used these "validated" expense bases as reference points from which to identify incremental require-
ments. In adjudicating the incremental additions to the base budget as submitted in the universities' requests, Council refers to independent sources of information, particularly price level inflationary rate adjustments, for example in the categories of faculty salaries and university supplies and services. However, it is clear that Council has employed a relatively simple incremental approach in the development of its funding recommendations.

BASIC PROBLEMS ASSOCIATED WITH COUNCIL'S APPROACH TO THE DEVELOPMENT OF ITS FUNDING RECOMMENDATIONS

The single major source of financial information upon which Council draws in the development of its funding recommendations is the formal submission in which each university requests operating funds for the next fiscal year. As noted earlier, prior to the establishment of the Council, the discussions which took place between the provincial government and its universities did not involve detailed budget submissions by the universities. In order for Council to discharge its mandate to act as the minister's advisor on the financial requirements of the universities it became necessary to commence a more detailed examination of university expenditures and funding requests. Indeed Council is empowered to require the universities to provide it with information. The Council also may "require a university to establish the accounting and information systems that the Universities Council considers necessary for the proper conduct of the business affairs of the
university" (University Act, section 69k). To be exercised properly, these powers must be based on an analytical framework to be applied to the universities' financial operations. In the early years of its activities, Council began by relying on detailed analysis of specific areas of financial data provided by the universities; more recently, it has attempted to develop a common format for the submission of budget request information for the purpose of applying its own analytical models to such a comparable information base. Respecting the budget requests of the universities, Council's consultants, Price Waterhouse, retained to assist in financial analysis, noted in 1975 that:

The requests for operating funds which the three universities have submitted to Council have been presented primarily on an incremental basis. That is, the submissions start with the approved budgets for the base year 1975/76 and concentrate on presenting and explaining the additional funds that will be required for operations to be included in the budget were developed differed among the three universities. (Council document 2)

The Consultant added that:

further improvements can be made in the methods of preparation and presentation of the budgets for the three universities which would assist both the control of operations by the administration within the universities and the assessment of their budget submissions by the Council. In particular, we believe that a more complete format for the preparation of the submissions should be developed which would be compatible with the budgeting processes of the universities, with the object of facilitating their assessment by the Universities Council. (Council document 2)

With the budget submissions of the universities lacking a comparable format the Council was unable to identify common criteria and a common methodology to assess the submissions. Despite ongoing consultation with the universities to develop a
mutually satisfactory format, the related problems of presentation and assessment remained unresolved. In January 1979 the consultant again commented that the universities' submissions were "based on an incomplete 'model' of the incremental approach in that savings from the base are not necessarily identified, though new programs and enhancements to existing programs are". He noted as well that the submissions are presented "without any clear methodology for their review and appraisal by UCBC". (Council document 12)

For their part, the universities have developed detailed budget preparation processes as a basis for their submissions to the Council (these processes are described in Appendix B). Council's concern, however, is not focussed on the procedures each university has developed to strike its budget and derive its request. Rather Council's paramount interest lies in understanding the assumptions, the priorities and the options which the universities have acted upon in the derivation of their requests. The crux of the problem is that this understanding is not readily apparent from the current submissions of the universities. To date Council has not been able to develop the analytical means to reach the degree of understanding of these matters to feel confident of the validity of the budget base of the universities. Council does not have a satisfactory independent perception of university financial requirements based upon any general set of benchmark cost functions. Because it could not satisfy itself on this point, Council in 1977-78 adopted an arbitrary measure designed to
have the universities re-examine their budget base for the purpose of effecting better utilization of resources. Council described its dilemma in these words:

The Council has not been in a position to analyze thoroughly the expenditure base on which the universities' budget requests were built. The universities themselves, as well as the Council, have generally assumed that this base reflected the efficient utilization of funds made available in past years. It is probable, however, that in this instance, as in the case of any enterprise, a careful study of present methods and practises would identify opportunities for the improvement in the effectiveness with which resources are applied. Consequently the Council has concluded that its funding proposal should reflect a decrease of 1% in the level of expenditures of the current year to provide a target for improvement...The means by which this objective is achieved clearly must be determined by each university in light of its own situation. Nevertheless, the Council is concerned that there are opportunities that should be evaluated. (Council document 5)

This measure was taken again in subsequent years but is clearly only an interim and piece-meal answer because arbitrary reductions cannot be reasonably defended if extended indefinitely.

In the following year's recommendation, 1978/79, Council enunciated in general terms the nature of the criteria it was seeking to develop and to apply to its review of the universities' submissions. Council said it sought to take into account "the need for the universities to demonstrate in quantitative terms that they are operating in the most effective manner, with the funds already available to them" (Council document 6). Council indicated, however, that in terms of the improved use of resources which it believed was obtainable, the universities had not demonstrated in qualitative terms suitable measures taken to reach this objective. Hence, little progress had been made in Council's view, to enable it to analyze the
universities' budgets in a way which would serve as a base for a funding recommendation other than using an incremental approach. In 1978/79 Council "regrets that it was still unable for this budget submission to make its estimates other than on an incremental base". Its position remains unchanged:

The Council is firmly of the opinion that a better approach to measurement must be found, not only to ensure that our universities are receiving adequate provincial support, but to ensure that each one of our universities receives its appropriate share of the total provincial support. (Council document 6)

This last point carries with it an implied relation between the assessment of the universities' submissions and the subsequent allocation of the operating grant. The problem which faces Council in this connection will be discussed in the next chapter on allocation decisions but can be succinctly described as follows: because the Council is unable to validate to its complete satisfaction each university's budget base, its recommendation for the global total of operating funds for the three universities can not be directly disaggregated into an appropriate allocation to each individual university. This circumstance results in an allocation methodology which is literally divorced from the budget review underlying the original funding recommendation.

Council's difficulty in validating the expenditure bases of the universities is also a source of concern to the Ministry and the Government, particularly during periods of financial stress.

In years past when government financial restraint was less generally apparent, particularly in the halcyon days of the
'sixties and early 'seventies when university budget requests were robust but acceded to by government, it was presumably taken for granted that the Boards of Governors effectively discharged their mandate to oversee expenditures. Indeed in this province the Boards' powers in this regard are broad and explicit:

Subject to the powers of the Universities Council, the management, administration and control of the property, revenue, business and affairs of the university are vested in the board, and without limiting the foregoing or the general powers conferred on or vested in the board by this Act, the board has power...to receive from the president and analyse and adopt with or without modifications, the budgets for operating and capital expenditure for the university. (University Act, section 27)

Council has relied on each Board to perform its duty in this regard but it finds that such reliance alone is becoming increasingly untenable in the face of mounting pressures from government, in particular from Treasury Board, for demonstrable proof that sound budget management prevails at the universities.

In the current view of Treasury Board the restraint issue is predominant in all areas of budget analysis. Simply stated, this circumstance prevails because the rate of government expenditure is said to be increasing faster than the rate of revenue generation. This results in the requirement to examine annually the contents of every budget base to validate both the priorities of the programs and their costs. Essentially the Treasury Board is looking for evidence that such examination has occurred and, consequently, that attention has been given to the restraint issue. The fundamental budget approach of the present government is that there exists in each sector a
minimum level of service with an associated minimal operational budget below which it does not make sense to fund anything. Government financial restraint requires that that level be determined as a base upon which increased expenditures may be subsequently identified, justified and ranked in priority for possible funding (oral presentation of Treasury Board official). Working within this approach the Treasury Board seeks to satisfy itself that the base has been validated by looking for the following types of evidence: the exploration of revenue options and the related risks and exposure of each option; the assessment of management capacity in the way financial choices are made; the decision making for programs including consideration of criteria, priorities and impact on costs, etc. To impress upon the ministries the seriousness with which the Treasury Board treats this matter and its determination to be satisfied that the issue of restraint is being addressed, the 1981-82 estimates for the ministry responsible for universities were approved with appended conditions designed to produce the foregoing types of "evidence". In relation to the focus of this study, the following request from Treasury Board to the Minister formally illustrates the government's position:

Complete an investigation into budget preparation at the three universities, their reporting requirements to the Universities Council of British Columbia, and the effectiveness thereof. Prepare a recommended plan for indicated improvements and for potential for a multi-year adaptation within the Institutions toward the principles of Zero Base Budgeting. Included in this work, is to be an analysis of component expenditure and revenue sources at each University, with comparative indices for the rest of Canada. (Council document 16)
To date the Ministry has been attempting to comply with Treasury Board's instruction. In terms of Council's advice to the Ministry, however, it is clear that past measures, such as the arbitrary deduction of 1% from the base and approaches such as a historical comparison between budget levels and actual expenditure levels to verify the reasonableness of a university's budget base, do not provide sufficient evidence of the type sought by Treasury Board. If not being presently answered, the Board's inquiries are serving to define further the relevant budget information needs of both the Board and Council.

Some basic objectives are becoming apparent to Council in relation to these budget information needs. The annual operating estimates document, in outlining the operating requirements of each university and the levels of funding requested from governmental and non-governmental sources, should: (i) provide accountability for the funding previously made available; identify trends in the allocation of resources in response to changing demands for services; (ii) ensure that the information provided for the three institutions is as comparable as possible and that the level of detail is a proper interpretation of trends; and, (iii) provide a framework to facilitate the internal planning and decision making about resource allocations at each university when finalizing its institutional operating budget (Council document 22). Council is currently considering how to re-design the institutional submission document in these general directions.
While the Treasury Board requirements are coming into clearer focus for Council, it is important to note that the Treasury Board does not assume responsibility for policy making in higher education. It is to the government itself and, specifically, to the Ministry of Universities, Science and Communications that Council must look for policy guidance.

In this regard the government has been somewhat silent, possibly in recognition of the traditional autonomy which is afforded to universities in this part of the world. Post-secondary education issues generally do not form a very salient feature of government's agenda. In the British Columbia higher education sector the government's recent attention has been focused more on the development of the community college system and the establishment of newer non-traditional educational organizations such as the Open Learning Institute and the Knowledge Network of the West. With some minor exceptions, such as the creation of the David Thompson University Centre to replace Notre Dame University and the establishment of Trinity Western College as a limited degree granting institution, the government and the provincial legislature have not devoted much of their attention to university activities. That is not to say that the government has abdicated responsibility in this area. The government view is that its policy in these matters has been implicit in the types and level of funding which it has provided to the universities, for example:

During the last few years, we (the government) have instituted a debenture funding system for major capital acquisitions, beginning with buildings and extending now to major equipment. In the early years of such a system,
the costs of debt servicing are comparatively small, but on a percentage basis they rise very rapidly. Another recent change has been a government decision to earmark certain funds for the support of university efforts in areas which are of priority to the government higher than may be felt within the universities themselves. The government regards these earmarked funds as part of university funding, even though the universities may be reluctant to do so. (Council document 17)

Special funds for the expansion of medical and engineering education constitute examples of such policy decisions of government. The government view is that, in terms of appropriate comparison with cost of living increases, it has funded the universities at a relatively higher rate of increase and that these increases are a representation of the will of the government to support the universities. (Council document 16)

In 1978 the Minister requested Council, in consultation with the universities and Treasury Board staff, to submit a five year budget for higher education. The Minister recognized some direct implications of such an exercise:

It will give the Government an opportunity to look ahead in the educational field in a way that has not been possible heretofore. In turn, the Government may be in a position to give a longer range outlook on its own ability to make financial commitments to post-secondary education.

There are two important factors which will need to be considered in making judgements about budget requirements for the next five years. The first is the proportion of income to be derived form non-governmental sources, particularly student fees. The second is the role that each institution will play in the overall program for the province. (Council document 9)

Such an approach was not new to Council for, in October 1976, its second annual report stated:

Having now had the experience of two consecutive annual budgets, it is the opinion of Council that, at least in general terms, university budgeting should be on a three year basis. Year one would show a detailed analysis of
financial resources the universities feel they require, while years two and three would give a less precise picture of the fiscal requirements. The acceptance of this principle by the Government would significantly enhance the quality of long range planning and the opportunity for increased efficiency of operations in the universities. (Council document 4)

In response to this specific request, the Council consulted with the universities and reported to the Minister that the cooperation of the institutions had been secured for this task. As a first step in the development of the forecast Council suggested that:

...it would be useful to discuss the specific information which will be required, and the assumptions regarding government policy which should be included. We are concerned that Council be able to offer guidance to the universities in terms of which assumptions regarding higher education policy may be most realistically built into their forecasts (assumptions, for instance, regarding university participation rates). (Council document 11)

For reasons which are not well understood at Council, but appear in part to relate to a lack of government response to Council's suggestion, this undertaking was subsequently abandoned. The issue of planning will be subsequently discussed in Chapter six.

It is fair to observe that with respect to formally enunciated statements of policy in matters of university finance the Government record is not copious. The Government's general position appears to be that it supports the universities as generously as it can in light of competing demands on the public purse and in return it expects these institutions to meet the evolving needs of society which, in selected areas, will be defined by the government. In large measure, however, both the subject of needs and the methods of satisfying them
will be regarded as the preserve of the universities: the government seeks only to be assured that the public money consumed by the universities in the process is expended effectively and efficiently; in other words that the universities are held appropriately accountable. The government relies in the first instance upon the advice and opinion of its chief advisor, the Universities Council. In taking this view the government has avoided a dirigiste approach encompassing specific policy statements. This circumstance has allowed the universities wide latitude in the direction and magnitude of their activities and, as they have proclaimed in their mission statements, they have responded in good faith to meet societal needs in terms of new and expanded academic endeavours but therefore require increased funding. Thus, while the absence of government direction permits the universities a freedom in development, in order for such development to continue a steady and increasing supply of funding is required. Alternatively when funding is constrained a problem arises for the universities and the Council in determining how to structure academic activities to ensure compliance, where appropriate, with their paymaster's wishes in the absence of specific Government policy. The question which the universities and Council can legitimately ask is to what degree the universities can expect public support?

It appears that a "policy-free" approach worked satisfactorily as long as the government revenues permitted appropriations to expand in line with the annual increases requested by
the universities and supported by the intermediary. Conversely, when the Government experiences revenue constraints it is forced to alter its approach, to intervene and to search for increased information about expenditures in order to facilitate its assessment of appropriate funding for university education relative to other priorities. In such a situation the Council has been in some measure hampered in its attempts to respond to government by the lack of provincial direction. The issue of enrolments is a case in point. In a letter to Council Chairman, the Deputy-Minister has stated

The Ministry does not regard the total number of university students, or the number of degrees granted per year, as a figure of merit for our universities or as a measure of their value to our Province. It is better to have a smaller number of better qualified and respected graduates than a larger number with more dubious qualifications. (Council document 17)

The Minister, the Honorable P.L. McGeer, in an oral presentation at Council's 1981 annual outlook conference, affirmed the general tenor of these remarks which were considered by a senior Canadian university educator, Dr. John Barfoot MacDonald, to be a singularly important statement of government policy, tantamount to saying that accessibility to university education no longer represented a primary objective of government financial support in B.C.

If indeed government holds this view as a salient feature of its support for universities it portends major implications for university and Council operations. Presently it is the implicit position of each university to provide a place for every qualified student applicant and to limit the establish-
ment of enrolment quotas to those schools, such as medicine, where extraordinarily high costs and other factors prohibit open enrolment. Indeed all new program proposals submitted by universities for approval of Council are to a large extent justified on the basis of student demand.

On the other hand, however, the University Act in describing the functions and duties of a university is silent on the matter of enrolment places. This is not the case in other jurisdictions, the United Kingdom or neighbouring Washington state, where enrolment targets are agreed upon by government, intermediary and university. The need for some clear understanding of government's views on enrolment numbers is important because it is this component, which is currently the most significant factor in determining instructional expenditures. In B.C. the universities predicate their budget requests largely upon enrolment patterns. Council considers this factor in its annual funding recommendation and allocates the general purpose operating grant on an enrolment driven basis.

In terms of the level of financial support for the universities a set of circumstances has developed in B.C. in which, as Perry forecast in 1969, the government and the universities are in conflict. This disagreement is recorded in the following table (particularly in column G).
### B.C. UNIVERSITIES OPERATING GRANT

($000)

<table>
<thead>
<tr>
<th>A Fiscal Year</th>
<th>B Universities Request</th>
<th>C UCBC Recommendation</th>
<th>D Difference % B/C</th>
<th>E Government Grant</th>
<th>F Difference % E/C</th>
<th>G Difference % E/B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>$161,689</td>
<td>$155,650</td>
<td>-3.73</td>
<td>$150,200</td>
<td>-3.50</td>
<td>-7.11</td>
</tr>
<tr>
<td>1976-77</td>
<td>208,083</td>
<td>192,652</td>
<td>-7.42</td>
<td>170,400</td>
<td>-11.56</td>
<td>-18.11</td>
</tr>
<tr>
<td>1977-78</td>
<td>213,502</td>
<td>194,235</td>
<td>-9.02</td>
<td>184,500</td>
<td>-5.01</td>
<td>-13.58</td>
</tr>
<tr>
<td>1978-79</td>
<td>220,880</td>
<td>202,498</td>
<td>-8.32</td>
<td>200,578</td>
<td>-0.95</td>
<td>-9.19</td>
</tr>
<tr>
<td>1979-80</td>
<td>234,742</td>
<td>218,924</td>
<td>-6.74</td>
<td>217,226</td>
<td>-0.78</td>
<td>-7.46</td>
</tr>
<tr>
<td>1980-81</td>
<td>254,415</td>
<td>242,255</td>
<td>-4.78</td>
<td>239,612</td>
<td>-1.09</td>
<td>-5.82</td>
</tr>
<tr>
<td>1981-82</td>
<td>283,210</td>
<td>270,513</td>
<td>-4.48</td>
<td>271,713</td>
<td>+0.44</td>
<td>-4.06</td>
</tr>
</tbody>
</table>

As the period of disagreement lengthens, the margin of budget tolerance by which the universities can reallocate internal expenditures or effect improved use of resources to accommodate less than requested levels of funding diminishes to the point at which academic activities may have to be curtailed. The universities are then left with the task of verifying existing program priorities. The government in these circumstances has not given any clear understanding of the "extent to which the universities may rely on government grants". (Perry 1969:7)

In the absence of such an understanding, the intermediary faces the problem of determining what is a reasonable and defensible level of funding for universities. This is particularly vexing in light of Bowen's view that the nature of legitimate academic activity is virtually limitless and is bound only by the amount of money available to support it.

It is clear that decisions on these matters will have to be informed by judgements which in turn can only be partially,
and not necessarily significantly, based on empirical information.

Summed up, two major problems have resulted from the Council's approach to the development of the annual funding recommendation.

First, the Council has not been able to satisfy itself fully of the validity of the budget bases of the three universities. The Council has not been able to develop singly, nor in consultation with the universities, a satisfactory format for the presentation of university budget information. This problem has arisen because a satisfactory analytical framework for budget review has not been determined. Hence Perry's call for some defined principles of budgeting in order to narrow areas of disagreement between the universities and the government has not been answered by Council. Council has not been able to develop an independent perception of university finances. The absence of government policy about the extent to which universities may rely on government grants has complicated Council's task of formulating an annual recommendation on the general purpose operating grant for universities.

Second, the inability of Council to validate to its satisfaction the budget base of each university has resulted in the development of an annual funding recommendation set in the context of the university sector as a whole (that is, dealing with the aggregate of the universities' requests). This recommendation subsequently has not been employed as the instrument to allocate the provincial operating grant to individual universities.
Chapter Five

ANALYSIS OF COUNCIL'S ROLE IN THE ALLOCATION OF THE ANNUAL PROVINCIAL OPERATING GRANTS

The University Act empowers Council to

...receive, allocate and distribute operating grants and grants designated by the Minister, but a university is not required to use operating grants allocated to a university for any particular aspects of its operations. (section 69f)

In actual practice the Council does not receive the universities' operating grants in the sense of taking custody of the funds; nor does it distribute the funds, for the Ministry issues the cheques directly to the universities. Council does, however, allocate the grants and the determination of the allocation process remains a major contentious issue. It may fairly be said that, in large measure, the allocation exercise has been made more troublesome as a result of Council's inability in the first instance to devise a wholly satisfactory procedure for the determination of the request level of operating grant funding for the universities collectively. Presumably, if Council, in the determination of the funding required for the system, had devised a working method of arriving at the level of operating funds required by each university, the allocation of the amount subsequently made available by the government in response to Council's funding recommendation could proceed in a straightforward fashion. As the earlier discussion indicates, however, such a fully satisfactory method of establishing the
financial requirements of the universities has not yet been developed by Council.

THE COUNCIL'S APPROACH

In making its allocation decisions, Council has followed a different set of procedures from those employed in aggregating the universities' budget requests.

In perspective, it must be noted that Council inherited a historical practice of allocation which was characterized by a formula cum negotiation and has been described thus:

...the grant used to be divided by a financial Advisory Board to the Minister of Education. In 1970-71 and 1971-72, UBC and UVic proposed grant decisions to the Board which were based on a formula approach. The Board modified the proposed divisions but retained the recommended formula as the starting point for the grant divisions. In subsequent years the three universities negotiated amongst themselves on the grant division using the formula as the starting point for discussion. The results of these negotiations were then conveyed to the Advisory Board which in turn reviewed and endorsed them and passed on its recommendations to the Minister of Education. (Council document 3)

In April 1976 the University of Victoria expressed concern that there is evidence that the Universities Council is departing from the use of a rational basis of grant division which was based upon criteria which had been agreed to by the universities. (Council document 3)

The criteria in question included the formula components and their founding principles.*

Dr. Petch also noted in the same letter that:

One of the objections to the formula which was used is that any special factors which require recognition outside the formula must be made at the expense of one or more of the other universities. (Council document 3)

*For details of the formula components and the principles upon which the formula was based see appendix D.
This fact is an axiom which can be broadened in scope to include the total grant insofar as any adjustments to the allocation to one university have a directly perceptible impact on the allocations to the other two institutions. This is a factor which contributes to the making of adversarial circumstances in the issue of grant allocation decision making. In a larger system such as that of the United Kingdom or Ontario with a great many institutions, differences in one institution's allocation cannot be directly perceived to have a direct effect on any other institution's share.

In 1978 the Council decided to review the allocation issue. In its allocation report of that year Council set forth the following objectives for this review:

After some agreement has been reached on what should be the future differences in roles and programs of British Columbia universities, further measures can be instituted to refine the allocation process. During the 1978-79 year, the Council required the assistance, cooperation and agreement of the universities in studying the appropriate academic services to be delivered by each university and in devising a suitable formula to reflect an equitable allocation of the provincial operating grant. (Council document 8)

The study of the academic programs to be provided by each university was not pursued and this matter will be discussed in the next chapter. Council did initiate, however, the development of an allocation formula.

Prior to taking this decision the Council basically had allocated the provincial operating grant to each university using an incremental approach based upon the historical pattern of the grant allocation. Council was, however, clearly uncomfortable with this simplistic procedure because it was not
satisfied that it would enable the realization of its stated general goals on the allocation process:

In allocating the Provincial Grant among the three universities, the Council seeks the maximum benefit to the public of British Columbia arising from the use of the grant. Ideally, each university should receive the financial support which will enable it to function capably in providing appropriate teaching, research and community services. (Council document 8)

In 1978, in order to assist it in analysing the issues associated with the allocation decisions, Council retained a consultant, Mr. B. Hansen, to define an approach to the subject. Specifically the consultant was asked:

to recommend measures and methodology to the Universities Council of British Columbia to assist in its determination of recommendations for appropriate funding of universities in British Columbia both as to system need and the equitable distribution of government funds made available. (Council document 7)

Council obviously recognized the desirable and logical connection between determining the level of funding and the allocation of the funding. Regarding the matter of funding levels of the universities the consultant concluded that, if the Ontario weighting system was applied to university student enrolment in B.C., UBC had been significantly underfunded relative to the University of Victoria and Simon Fraser University. Notwithstanding the relative levels among the B.C. universities he also concluded that:

even allowing for historical relationships, roles of institutions, number of universities, range of program offering, the present alignment of B.C. universities with respect to funding per unit of approximately weighted enrolment is substantially out of line (in the direction of higher funding in B.C.). (Council document 7)

Although previously Council had criticized UBC on the
grounds that that university had spent a disproportionate amount of money on academic salaries to the detriment of library, physical plant and other non-salary expenditure items, Council's 1978-79 allocation decision coincided with the consultant's finding as follows:

It is the opinion of the Council, having regard to the nature and extent of the services currently provided by the universities, that the University of British Columbia merits a somewhat larger share of the operating grant than would be provided by incremental funding based on the historical pattern of the grant allocation. The 1978-79 grant allocation reflects a move to alleviate this imbalance. (Council document 8)

This departure from incremental funding caused concern at the smaller universities and probably enhanced for them the attractions of developing a formula basis for the allocation which might increase the predictability of their individual grants.

On the method of developing such a formula the consultant acknowledged that differences in funding occurred because of the assumption of past roles and, therefore, the crucial questions related to the nature of future differences in roles and programs of the B.C. universities and to how they should be differentially funded. (Council document 7)

In responding to these questions the consultant defined four major tasks:

1) to define the mission and roles of the universities;
2) to define and assemble appropriate information for both the determination of the university system's needs and the provision of accountability in the expenditure of government funds;
3) to design the allocation methodology *per se*; and,  
4) to develop an annual reporting format for comparable  
revenue and expenditure information. (Council document 10)  
The Council proceeded on all four matters but its priority  
focussed on the third; that is, the design of an allocation  
methodology. A task force was established involving Council  
staff and university representatives. As a preliminary  
exercise a set of guiding principles was developed. A formula  
for the allocation of the operating grant was then devised in  
relation to the principles*. Council adopted the formula on  
the basis of a three year trial period; that is, to be applied  
for the fiscal years 1979-80 to 1981-82 inclusive on the  
understanding that continuous review of the formula would occur  
during the period of its application. The fundamental tenet  
underlying the formula is that over the longer run "the dollars  
will follow the students;" that is, it is largely enrolment  
driven.  

The formula was revised in the first year in order to  
correct some inconsistencies and changes due to enrolment  
reporting. These changes did not significantly affect the  
relative funding levels of the universities in 1979-80 and the  
original principles were still satisfied by the revised  
formula.  

In effect, the allocation formula could be described as a  
forced-fit formula insofar as in the first instance its  

*For details of the principles and their relation to the  
formula see appendix D.
application resulted in levels of funding nearly identical to those of the last year prior to its implementation. Indeed one university has stated that:

An implicit principle guiding the deliberation of the Task Force was that the historical funding level relationship among the universities...should not be significantly altered by the introduction of a formula. (Council document 19)

This desire to maintain historical relationships* can be explained not so much by a belief that the existing levels were fair or equitable but by the political agreement of the universities that the most recent level approximates the minimal acceptable amount of funding that each university is prepared to accept individually and collectively in the context of the overall availability of provincial funds.

This explanation is supported by the fact that while the agreement in respect of the application of the formula included a minor portion (5%) to be distributed at Council's discretion the universities strongly argued that in the first year of the formula's application the formula be used to distribute the entire available amount. The universities could calculate the allocation on that basis and that calculation showed a result nearly identical to the immediately previous year's allocation. Council acquiesced and allocated the grant on that basis. On this point of discretionary judgement further comments will follow.

With the completion of the agreed, three-year application

*For a ten year overview of these funding relationships see appendix E.
of the allocation formula in 1981-82, Council, in consultation with the universities, initiated a review of the matter. That review has not been completed. The main features and criticisms of the formula's implementation have, however, been enunciated in this study. From this context the role of the Council can be reasonably defined.

The first point to be observed is that the implementation of the formula ensured that at least 95% of the provincial operating grant would be allocated to the universities on the basis of an agreed algorithm* which is essentially based on student numbers, or enrolment driven. The remaining portion (5%) constitutes the limits of Council's ability to exercise discretionary judgement in the allocation. This factor, if used entirely, represents a large enough amount of money to effect significant impacts on the universities: it is large enough to alter the effects of the enrolment patterns exercised in the algorithm.

How has Council chosen to exercise this discretion? It is fair to say that Council has refrained from taking any discretionary decisions without the agreement of the universities and even then by limiting the area to approximately 1 to 1½% of the total operating grant. Basically two matters were treated: assistance in the development of new and emergent academic programs and support of specific areas of academic excellence in the form of programs of distinction. In the former case Council reviewed and approved proposals submitted by the

* For an explanation of the algorithm see appendix F.
universities for designated funding for a specific period of time. This procedure was instituted in order to assist the university administrations in protecting money for new academic initiatives. Although these activities were approved by Senates and Boards of Governors, the Presidents felt that, without Council emphasis (one might call this the "foil" role of the Council: that is, to accept responsibility for unpopular decisions), they would have difficulty in maintaining funding for them within the institutional budget process.

The small amounts designated Programs of Distinction represented a Ministerial and Council initiative which won university approval. A small amount of money (up to $\frac{1}{4}$ of 1% of the total operating grant) was designated by mutual consent of Council and the universities for enhancement of areas of particular academic excellence and of specific relevance to British Columbia*. Like the funding of new and emergent programs, it is again felt by the university administrations that the Council's emphasis is required to protect such funding within the institutional budget allocation process. Unlike the new and emergent programs, however, it is allocated on the basis of the formula. Council relies upon the academic judgement of each university for the use of these funds within the institution. While Council receives a post-facto description of the use of such funds, it attempts no formal evaluation of the various uses to which the money is put.

* For the formal terms of reference of Programs of Distinction see appendix G.
These two areas then have represented almost the total spectrum of Council's exercise of discretionary decisions in allocating the provincial operating grant by the allocation formula*. In percentage terms the amount of money involved is less than three percent of the total operating grants made available by government. Finally, the discretionary nature of the decisions has been constrained by Council's decision to seek university agreement in both cases.

In passing, it should be noted that during the period 1974 to 1982, the practice has grown up of designating operating funds to cover the projected additional costs arising from the introduction of newly-approved programs (new and emerging). On the few occasions when the Council has shown a willingness to approve a new program only in principle - that is, without a funding commitment - there has been a reluctance on the university's part to proceed with such programs. Although not an invariant situation, the exercise of an approval-in-principle without funding has become almost the equivalent of a rejection in those cases where the university has requested concurrently both approval and funding. And by declining to proceed with such new programs in the absence of guaranteed

* For 1981-82 the provincial operating grant marginally exceeded Council's recommendation. Accordingly Council in its allocation of that year's grant devised a system development fund concept which specified particular purposes which Council felt such "additional" monies ought to be put. While Council made its allocation on this basis, it could, however, only suggest to each university that it apply its share of these funds along these lines when it made its own internal allocation. This discretionary decision by Council is exceptional for it arose in the anomalous circumstances of receiving a larger grant than requested.
funding, the dissaffected university in a sense shifts the burden of responsibility for the failure to perform over to the Council - at least in the first instance, later, by inference, over to the government if funding is not supplied.

It is clear that by accepting the allocation formula Council essentially agreed to distribute the vast bulk of the provincial operating grant on two main bases: the first, and by far the most important basis, is the past funding level (this was ensured by adopting enrolment as the driving force and by making previous enrolment levels the predominant enrolment factor in the algorithm); and the second is the basic philosophy that shifts in resources will follow shifts in enrolment, i.e. dollars follow students.

The first basis can be defended on two grounds. It presented the minimum acceptable to the universities. Simply stated, without such consensus Council had no reasonable basis to allocate the funds other than some arbitrary incrementalist approach. This was not desirable because it was open to the university criticism that it lacked both a rational basis and an element of predictability in the funding.

It also is agreed that any radical change from one year to the next is unacceptable because it creates unmanageable conditions for the affected institutions. The formula, driven as it is by enrolment, is not susceptible to great variations from year to year because current enrolments are relatively stable at the university level.

The second base is defensible on the grounds that the
provincial grant is primarily intended to pay instructional costs of educating B.C. students.

The reactions of the universities to the three year trial of the allocation formula are relevant to Council's problem of allocating the grant. The two newer universities favour retention of the basic formula: both have gained more in terms of their relative share of the grant than the oldest university. More importantly, with the retention of the formula, the sustained trend in enrolment growth which is projected stands to gain them an even greater share in future. Accordingly, the focus of their concerns lies elsewhere, as in the words of Simon Fraser University:

The fundamental problem appears not to be with the present formula allocation mechanism but rather with the failure of the provincial operating grants to compensate for inflation, enrolment growth and the changing program mix of students... (Council document 18)

and,

What is clearly required is recognition by the provincial government of the need to at least maintain if not increase the constant dollar discretionary provincial grant per weighted full-time equivalent student. (Council document 18)

On this point UBC concurs:

The President stated that there were weaknesses in the present formula. However, if the money from the government were sufficiently large, even with the weaknesses in the present formula, the University would probably not be as unhappy as it was today. (Council document 13)

The smaller universities also agree that the present formula has improved the institutions' ability to plan. In SFU's view:

The use of a formula for the past three years represented
the first attempt to bring a degree of stability and predictability, as well as equity, into the process for allocating provincial operating grants. In large measure, the present formula has achieved these objectives, and as a valuable by-product, has enhanced the financial planning process of each university. (Council document 19)

The University of Victoria concurs:

One of the most compelling reasons from the university's point of view for retaining a formula is the assistance it provides in forward planning. This is particularly important when the government is unwilling, or unable, to give commitments about future years' funding. (Council document 20)

The essence of the predictability which the formula affords the universities relates to the fact that each institution can predict fairly accurately its share of the provincial operating grant for at least one year in advance. The university can then estimate the percentage increase in the total operating grant and arrive at a dollar figure of the amount of provincial operating funds it would likely receive in the following year. Accordingly it can then plan with greater confidence an institutional budget. It is important to note, however, that any planning role that Council may undertake is not particularly enhanced by the formula - a point to be discussed later.

The largest institution, the University of British Columbia, however, is less enamoured of the formula by its experience. While it too, along with its sister institutions, has gained some stability and predictability in its grant, the fact is that UBC's share has decreased and, furthermore, the enrolment indicators driving the formula portend further diminution of that share. UBC claims with supporting evidence
that the formula has essentially resulted in institutional shares which are highly correlated to full-time equivalent enrolment. This fact, UBC contends, is especially punitive to an institution which bears the greatest number of high cost graduate and professional programs, and the mechanics of the formula only takes into partial account the enrolment in such programs, i.e. the weighted full-time equivalent student component of the formula.

All three universities have a concern about a formula component, the SFU trimester constant, which was incorporated to take into consideration higher operating costs generally associated with a trimester operation. The consensus of the universities called for a cost study of the matter to verify the suitability of the constant. This study has not yet been undertaken; an earlier study by a firm of chartered accountants reported that trimester operations were more costly.

**BASIC PROBLEMS ASSOCIATED WITH COUNCIL'S APPROACH TO THE ALLOCATION OF THE PROVINCIAL OPERATING GRANT**

The record shows, therefore, that the formula as an allocation mechanism yielded a minimally acceptable division of the operating grant in the first year of its application but failed to carry the consensus through the three year period of its use. In the third year the largest institution was losing in its relative share of the grant which, combined with the declining grant/FTE ratio (in constant dollars), caused
dissension over the formula's continuance. Council recognized the need for flexibility and accordingly made provision for an annual review of the formula and retained an ability to allocate a discretionary amount of up to 5% of the grant. Council was, however, unsuccessful in discovering methods, if they existed, to make adjustments within this five percent margin on some defensible basis - which would possibly have maintained a consensus in favour of the continuation of the formula mechanism.

It should be noted here that Council has not pursued its 1978 resolution which was re-affirmed by one of its financial consultants to determine more definitively the future differences in roles and programs among the three universities. Such differences could conceivably in part serve as a basis for allocating resources.

Perry had foreseen the difficulty an intermediary would experience in coming to grips with a fair allocation process in the absence of an understanding concerning a minimal level of government support:

One of the main causes of dissension between (sic) the three public universities has been due, in part, to a lack of agreement as to what the ground rules were, or ought to be, governing financial support from the public sector. And we think that the task of any new intermediary would be much more manageable if there were general guidelines. (Perry, 1969:45)

As noted earlier such guidelines have not been forthcoming from government.

Currently, the salient circumstances in which Council finds itself in allocating the provincial operating grant can
be summarized as including:

1) a statutory responsibility to allocate the provincial operating grant;

2) an unsatisfactory method of determining a recommended funding level for universities which is not useful in serving as a basis for the subsequent allocation decisions;

3) a dissolution of any consensus among the universities respecting a methodology which would yield a minimally acceptable allocation result for the 1982-83 fiscal year and beyond;

4) a lack of government guidelines respecting a practical basis of financial support for universities;

5) the absence of a clear perspective of the roles and programs to be undertaken by each university in contributing toward a rational system of higher education.
What problems, if any, has the Universities Council encountered in its financial decision-making role, and what might be done about such problems?

An approach to these questions might be commenced by considering the rhetorical question: In what situations, that is, on what occasions and under what circumstances, has the Council experienced difficulties in executing its financial decision-making role? In response, it might be said that the study has brought to light several explicit and implicit situations.

Implicitly, the Council has learned through experience that its financial role is, of course, circumscribed by the built-in constraints affecting its general role as an intermediary.

Even through the Council may reach a definitive, impartial judgement about a financial question referred to it, and might wish to implement such a judgement, as in all matters brought to an intermediary, the Council has learned that it would hardly be prudent to do so unless it had the steady support of a significant proportion of the affected parties. The analysis has suggested that the Council, as a practical matter, probably has to have the steady support of the provincial government and at least one, if not two, of the universities to be sure that its decisions will hold. As one senior Canadian government
official has explained

it must be recognized that such bodies (intermediaries), whether enshrined in legislation or created by order-in-council, whether possessed technically of executive authority or limited to an advisory role, have no public base of authority and power. What has been created by government is in existence at the pleasure of government. It may be more or less independent and it may be highly influential, but it cannot be absolutely authoritative. (Sibley, 1982:11)

In order to secure a sufficient majority (as it were) the Council conceivably might have to advocate a decision which fell short of its own best judgement. Is this a genuine problem? And has it occurred in the financial decision-making sense? The study shows only one experience where it might be said that the Council had, or came close to having, second thoughts about its own judgement (the 1978 case involving a consultant's recommendations).

It is in the area of the formulation of a best judgement that the study has shown that some identifiable difficulties can arise.

From a financial decision-making point of view, the study has shown that the most difficult problems encountered by the Council have arisen in its performance of two tasks: one the formal submission of the budget spending estimates (the request for funds), and the other, the subsequent distribution of the available operating funds.

Although each university prepares its own set of spending estimates as an individual institution (and certainly not as a joint undertaking), all the universities have, in effect, insisted in defining the mode of allocation of whatever funds
are eventually appropriated for general operating purposes by the Legislature. So there is a joint allocation approach but a singular pre-determination of needs.

The Council finds itself forced to evaluate the individual university requests and to formulate its own judgement about the total system's request that ought to be recommended to the Government. This task in itself has caused concern - over the methods employed - to both Council and the Government. But then, this judgement about needs is set to one side when the allocation task is performed. The distribution of the available funds is made within its own set of agreed criteria.

The lack of a close linkage between these related tasks (determination of need and allocation of funds) continues to vex the Council. In addition, as of the end of fiscal year 1981/82, Council faced two new complicating factors: the early signals of a vastly changed - and constrained - financial outlook and a sharp division of thought among the universities over the proper mode of allocation.

So the necessity of retaining significant support from the other major entities in the system has become, almost suddenly, more difficult for the intermediary, the Universities Council.

The study's examination of the literature, however, suggests that these difficulties are not necessarily of Council's own making nor indeed unique to the British Columbia intermediary. Bowen's findings indicate that there is not much guidance respecting reasonable levels of funding for universities.
In addition, neither the government nor the universities in British Columbia have performed wholly satisfactorily in this domain. The former has not communicated much in the way of fiscal policies and guidelines while the latter have not been able to present their budget submissions in ways which clarify institutional decision-making in terms of academic priorities. Council clearly has not been greatly successful in persuading these parties into taking such actions.

What steps might Council appropriately take to address these difficulties?

Pursuing the analyses of this study any courses of action upon which Council might embark ought to observe the requirement for Council to attempt to secure significant support for its decisions. It follows, therefore, that Council ought to continue to solicit the views and cooperation of the government and the universities.

The review of the literature, the seminal studies leading to the establishment of Council and Council's own deliberations have all pointed to a general acceptance of the desirability of linking financial decision-making to a planning process preferably based upon some agreed set of principles and assumptions respecting the constituent elements of the intended plan.

Bearing these factors in mind, some comments are in order respecting a broadly defined direction which it is suggested Council might assume to assist it in future financial decision-making.
The chances of a university system emerging from a laissez-faire approach by the institutions are very small. The inherent political nature of institutional survival will not permit an objective system-wide view to emerge. Some initiative is required and it is reasonable for the intermediary to act in the first instance since, as Robbins noted, both the institutions and government are bound by their vested interests. Additionally, Council's current financial mandate can be interpreted as including responsibility for the development of a system wide view or plan* for the University Act requires Council to advise on the monies required for "the support and development of each university and universities generally" (section 69r, emphasis added).

Council has already attempted to act in a advisory manner in the case of the expansion of engineering education. When all three universities expressed strong interest in establishing expanded engineering education programs, Council before receiving any formal proposals, initiated a large scale general study of engineering education in order better to

*The general meaning of "plan" of "planning" in this context has been defined by Millard:
the essential components of planning remain fairly constant. Basically planning involves identification of key problems, accumulation of accurate data about these problems, analysis of their interrelations, extrapolation of future alternatives that might emerge from present conditions, assessment of probable consequences of introducing new variables, and the choice of the most desirable modified alternatives as basic objectives to be obtained...includes a sequential plan or plans for implementing the basic objectives and a system for periodically re-evaluating the objectives and the means for achieving them. (Millard, 1980:79)
inform itself and set a context within which the various university proposals could be evaluated. As this matter is still in the developmental stage, the results of such action by Council can not be fully assessed. In any event, however, Council's study was conducted in anticipation of the universities' coming forward with competing proposals - competitive, if not strictly in a curriculum sense, then certainly in terms of claims on resources. In order to eliminate such potentially costly, duplicative efforts by all three institutions in a single program area it would seem reasonable to explore the possibility of developing a mission framework for the system, which would identify program development and determine university responsibilities. Such investigations would be affected by the emergence of government policy for university education. It is the government's interest which must determine the appropriation of additional resources particularly for professional programs for in the current financial circumstances the development of such programs cannot be financed through internal budget reallocations.

The current situation, dominated as it is by the issue of government fiscal restraint, calls for planning of a special kind. As Shattock explains:

The crucial danger in this situation is that planning is abandoned or simply degenerates into a resource redeployment or withdrawal exercise, a year by year reduction in expenditure mirroring the annual, seemingly haphazard public expenditure cuts. It is necessary, therefore, to establish a longer term strategy which serves as a framework within which the short term planning can take place. Such a strategy should not aim to be unduly complicated nor should be particularly detailed. It might, for example, establish certain quality factors,
the need to improve intake levels in certain courses, to build up stronger research schools in certain areas, to concentrate resources more on certain departments or areas of national reputation, national importance or strategic significance to the university. It might establish certain planning parameters such as encouraging growth in certain subject areas at the expense of others. It might lay down certain financial goals such as the reduction of energy costs or the reduction of fixed costs arising from premises, or concern itself with the long term future of certain sites or buildings. It might suggest that a certain figure should somehow be saved each year in order to encourage new academic developments or to protect certain vulnerable areas which the university wishes to preserve. The only essential of such a strategy is that it should be realistic within the circumstances of the institution and should not establish long term aims which the university can never realize. If institutions were forced to subscribe to "mission statements" as in the United States or a statement of purposes and objectives as recommended by the Select Committee...the development of a strategy tailored to the needs of the institution would be that much easier. It is essential that the short term plan should be geared to the longer term strategy because in the new situation that strategy will only be realized through a series of opportunistic and in themselves relatively small decisions. (Shattock, 1982:207)

Shattock's observations, however, are directed at the institutional level. The planning role of an intermediary is related but different.

The University Grants Committee in the United Kingdom has recently commented on its perception of planning and the Committee's role as follows:

The Committee sees its role in the period ahead not as a formal planning body, but as the body most able to assist institutions, severally and together, to react in ways helpful both for their own future and as part of a national system of higher education where restricted resources must be used effectively. This will only be achieved, however, by joint efforts and the essential role will be played by each university's approval of its own position...Adaptation to change cannot always be a quick process, and much of what will emerge will be of an evolutionary kind. However, little new development will be possible unless the system can generate, even within reduced income, the resources which this may require. (Shattock, 1980:197)
One way that the adoption of such a direction might be made operational by Council would be for Council, in consultation with the government and the universities, to attempt to answer three questions:

1) What programs will be offered at each university?

2) What general size of enrolment ought to be planned for the major categories of programs?

3) What ranges of costs can be expected based on current institutional experience in the major categories of programs?

This approach responds to the report of Council's consultant in 1978, which suggested that a definition of university mission and role be undertaken for the purpose of determining differential funding. Moreover, it is in accordance with Council's own 1978 decision to determine what should be the future differences in the roles and programs of B.C.'s universities. This task represents essentially the planning function which the Hurtubise-Rowat report and others recommend that intermediaries assume. On Council's part the answers will serve to determine the funding levels required by the universities and in large measure settle the subsequent allocation issue. On government's part the answers will focus on Treasury Board's insistence for more analytically-based funding requests and will also enable government to assess the consequences of reducing its funding to universities and to develop and implement policies for addressing provincial manpower needs. On the universities' part it would permit them
to focus their energies on developments which have a reasonably good chance of securing funding support - in effect it would be an incentive for institutional planning. Additionally they would retain the autonomy of direction of academic developments as they see fit, even if they modify or disregard the Council's and government's advice concerning specific academic directions.

This approach also recognizes the need in times of scarce resources for the imposition of external constraints which cannot be reasonably expected to emanate from the institutions. It addresses the implication of the diversity of university costs by refraining from setting specific costs by program. It could be developed to provide a rudimentary linkage between the issues of funding recommendation and grant allocation. In view of the implications of the inability to define objectively university "needs" and "outcomes" issue it could also be used to place the onus upon the institutions to demonstrate benefits arising from any requests for funding beyond the defined ranges of costs.

With some, even incomplete, answers to these questions Council would be in a better position to pursue a corollary course of action, namely: that Council negotiate with the government an agreement for a minimal level of funding support for a defined set of university educational services. The existence of the legitimate substantive interest of a government which extends beyond the mere provision of funds places a responsibility upon government to enunciate this
interest. For reasons earlier discussed, the government may be reticent to announce policy in higher education. This means an intermediary must attempt to persuade the government to act. The basic objective of such discussions with government would be to arrive at an understanding about the degree to which universities can rely upon government financial support. It is reasonable to assume that the determination of funding levels may result in exploration of government's specific interest for particular services to be provided by the universities - that is, the conscious expression of substantive guidelines. As discussed earlier, there exists a definite lack of government direction for the university sector in B.C. It is recognized and accepted that changes in the economic climate preclude responsible governments from promulgating policies which would commit them to fixed appropriations for any public sector. This reality does not, however, excuse government from its responsibility to establish guidelines about the public's interest in higher education services.

In British Columbia the priority accorded to higher education by government has declined if measured by constant dollars per student. A recent statement by the Deputy-Minister acknowledged

in real terms financial support per student has dropped significantly over the past four or five years...(and) is about the same now as it was in 1972. (Council document 20)

This decline is contrasted with the comparative increases in financial support by government over the same period for colleges and institutes, public schools and hospitals. The
universities are clearly an industry affected by public interest. There has been, however, as discussed earlier, little guidance offered by the government about its views on the definition and maintenance of the public interest in university education in B.C. As a senior university official has observed, "there appears to me to be little or no comprehensive governmental policy that relates to the university scene" (Pedersen, 1978:1). For example, does a decrease in the relative supply of income mean that the government expects some reciprocal diminution of program services at universities? The President of the University of Toronto has posed the question in the following terms:

Just what is the paymaster's view of the role...universities should be performing individually and in concert? That sort of question has to be answered before universities can respond in operational terms. (Ham, 1981:1)

Government silence on this matter may rightly be viewed as an attempt to escape the consequences of its own actions, an understandable and not unexpected attitude, given the nature of the political process. In times of financial constraint the government's priorities are particularly vulnerable to attack and are not easily publicly defended. Hence the government's interest in doing so is greatly diminished and in an area of low priority, such as higher education, the need to do so is virtually absent. The recognition by government of the necessity to give clearer guidance on higher education decisions has, however, been recently acknowledged in relation to the proto-type intermediary - the University Grants Committee in the United Kingdom. The Minister there recently stated
that it might be more appropriate for Ministers to take more responsibility than they have hitherto for determining priorities affecting the broad character of the allocation of resources to the universities. (THES, 16 July 1982:1)

The Universities Council is mandated to advise the government about the financial requirements of the universities. It is obligated, therefore, on behalf of the universities, to concentrate the government's mind on the matter of public policy in higher education. It should press the government on reasonable grounds to face up to its funding decisions. As Berdahl argued, it ought to make government express its interest as "a conscious act of state sovereignty". Accordingly Council might seek from government formal support for a joint venture to articulate the public interest in university education. If, as might reasonably be expected, government's views on this matter are not fully formed, Council, as an objective intermediary, in consultation with the universities could attempt to become involved in the framing of the government's policy. The critical objectives of these discussions would be to ascertain the nature of the government's agenda for universities, upon which some reasonable undertakings for financial support can be given, and to assure the government that its explicit objectives in higher education are being taken into account.

Related to Council's discussions with government about higher education policy, a concurrent theme for development is suggested by the current difficulty Council has in providing the Treasury Board with budgetary submissions which convey
among other matters "a sense of the state of management practices within the universities" (Council document 14). As described earlier, Council has wrestled unsuccessfully with this problem at the institutional level. Council's objective in this matter has been described by a former chairman of its Business Affairs Committee: to evaluate the means employed by the university administrations to bring about the effective use of resources; not to prescribe solutions of problems but to evaluate the adequacy of the responses of the administrations to the problems (oral communication). It could perhaps be assisted in this matter by discussing with the officials of Treasury Board possible indicators and acceptable proofs of these matters as developed and utilized in budget submissions in other areas of the public sector.

As a related, parallel exercise it might be useful for Council to discuss with the universities ways of redesigning the submission of their budget requests to include a description of the policies, plans, assumptions and judgements on which such requests are based. The objective of this exercise would be to assist the Council in its discussions with the Ministry and Treasury Board to meet the legitimate inquiries of these bodies for accountability in the expenditure of public funds.

In summary, the foregoing suggested direction and actions call for the Universities Council: first, to continue to recognize the need for government and universities support for its decisions; and second, to initiate and facilitate a
planning process for higher education in British Columbia by commencing discussions with the government and universities on selected issues.

This study has examined the conceptual characteristics of both government-university relations and the nature of university costs and financial behaviour. It has been suggested that these characteristics have implications for the role of an intermediary body in higher education in making financial decisions. An analysis of the interposition of an intermediary in government-university relations was conducted which indicated that in order for a buffer agency to be effective significant support for its decisions by the major entities in the system must be secured. The study analyzed the Universities Council's major decisions relating to its statutory financial mandate and identified some problems associated with its actions. In conclusion, the study suggested a broad direction and some consequent actions that Council might pursue to address these problems in its future financial decision-making.
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APPENDICES
APPENDIX A

1979 UNIVERSITY ACT

[Part to be proclaimed]

CHAPTER 419

PART 12

Interpretation

63. In this Part unless the context otherwise requires, "executive director" means the executive director of the universities council appointed under section 66.

Universities council

64. (1) There is established a corporation to be known as the universities council with a common seal, having the rights, powers, duties and liabilities set out in this Act, and consisting of 11 persons, one of whom shall be designated chairman, appointed, subject to subsection (5), by the Lieutenant Governor in Council.
(2) The members, other than the chairman, shall annually elect one of their number as vice chairman, to act during the illness or absence of the chairman, or during any period that the chairman is unable for any reason to discharge his duties.

(3) A member, other than the chairman, shall be appointed for a term of 3 years, and may be reappointed for a second term.

(4) The chairman shall be appointed for a term of 3 years and may be reappointed for a second term of 5 years and one subsequent term not exceeding 5 years.

(5) The following persons shall not be appointed members or continue to hold office as a member:
   (a) members of Parliament;
   (b) members of the Legislative Assembly;
   (c) employees or students of the universities;
   (d) members of the public service in the Ministries of Education, Finance or Universities, Science and Communications;
   (e) persons who are not resident in the Province.

(6) Unless his appointment is revoked or he dies or resigns, a member shall hold office during the term for which he is appointed and after that until his successor is appointed.

(7) Six members constitute a quorum, and, in the event of an equality of votes, the chairman may cast the deciding vote.

(8) Each member shall be reimbursed for reasonable travelling and out of pocket expenses necessarily incurred by him in discharging his duties, and, in addition, may be paid the remuneration for his services that the Lieutenant Governor in Council may decide.

(9) Where a vacancy exists on the universities council, the Lieutenant Governor in Council may appoint a person to fill the vacancy and the person so appointed shall hold office only for the remainder of the term for which his predecessor was appointed.

(10) A vacancy on the universities council does not impair the authority of the remaining members of the universities council to act.

Agent

65. (1) The universities council is, for all purposes, an agent of the Crown in right of the Province.

(2) The universities council may, as agent, carry out its powers and duties under this Part in its own name and may, with the consent of the Lieutenant Governor in Council, hold property in its own name, and likewise may dispose of its property.

Executive director and staff

66. (1) The Lieutenant Governor in Council shall appoint an executive director, define his duties and determine his remuneration and other terms and conditions of employment.

(2) The universities council or, if authorized by it, the executive director, may appoint or employ officers and other employees the universities council considers necessary to carry on the business and operations of the universities council and may define their duties and, subject to the regulations, determine their remuneration and other terms and conditions of employment and provide a system of organization to carry out the purposes of the universities council.
(3) The provisions of sections 6 (4) and (5), 7, 8 and 9 of the Science Council Act respecting the government, the secretariat under that Act, the officers and employees of the secretariat and a trade union apply to the government, the universities council, the officers and employees of the universities council and a trade union representing employees of the universities council, respectively.

1979 UNIVERSITY

Company Act

67. Except as provided in this Part, the Company Act does not apply to the universities council, but the Lieutenant Governor in Council may, by order, direct that the Company Act or any provision of it applies to the universities council and that provision then applies to the universities council.

Limitation of liability

68. (1) No member or employee of the universities council and no person acting under the authority of this Part or the universities council is personally liable for any loss or damage suffered by any person by reason of anything in good faith done or omitted to be done in the exercise of any power given by this Part.

(2) In an action against the universities council, if it appears that the universities council acted under the authority of this Act or any other Act, the court shall dismiss the action against the universities council.

Powers

69. The universities council has power

(a) to provide for the regulation and conduct of its meetings and proceedings;

(b) to carry out studies or research projects related to matters within its jurisdiction;

(c) to require the universities to prepare and forward to the universities council plans for the short term and long term academic development of the universities, approved by the senate and by the board before being forwarded to the universities council;

(d) to advise the government of the Province respecting the establishment of new universities;

(e) to approve the establishment of new faculties and new degree programs;

(f) to receive, review and co-ordinate the budget requests presented to it annually by the universities or presented at any other time at the request of the universities council, to transmit its recommendations, together with the original proposals from the universities to the minister; and to receive, allocate and distribute operating grants and grants designated by the minister, but a university is not required to use operating grants allocated to a university for any particular aspect of its operations;

(g) to require the universities to consult with each other on actions which might be taken to minimize unnecessary duplication of faculties and programs of study;

(h) to make recommendations to the universities on any matter.
(i) in consultation with the universities, to establish standards for various categories of university buildings so as to provide a basis on which the universities council may assess university requests for total capital expenditures, and, in consultation with the universities, to review these standards;

(j) to require the universities to provide the universities council with any reports and other information the universities council may require to carry out its powers under this Act;

(k) to require a university to establish the accounting and information systems that the universities council considers necessary for the proper conduct of the business affairs of the university;

(l) to consult with the universities in an effort to co-ordinate their solicitation of money for research;

(m) to receive proposals from the public respecting new programs, institutes and similar matters;

(n) to consider matters respecting student aid and fees;

(o) to establish evaluation procedures for departments, faculties, programs and institutes;

(p) to establish the committees representative of the universities council and the universities that the universities council considers necessary or advisable, but in particular
   (i) a business affairs committee, the purpose of which is to advise the universities council on financial matters affecting the budgets of the universities;
   (ii) a program co-ordinating committee, the purpose of which is to advise the universities council on all matters relating to undergraduate programs;
   (iii) a graduate studies and research committee, the purpose of which is to rationalize all matters respecting postgraduate programs and research in the universities; and
   (iv) a capital planning and development committee, the purpose of which is to review and advise the universities council on all matters having to do with capital expenditures of or for the universities;

(q) to gather and make available to the universities information relevant to university education in the Province to assist in planning and development;

(r) generally, to inquire into the financial requirements of universities and advise the minister of the sums of money required for the support and development of each university and universities generally;

(s) generally, to act as an intermediary between the government of the Province and the universities, and between the respective universities, for the purposes of this section; and

(t) to receive, allocate and distribute operating funds to other education institutions or to programs in those other education institutions that the Lieutenant Governor in Council may designate.

Limitation on powers

70. Notwithstanding section 69, the universities council shall not interfere in the exercise of powers conferred on a university, its board, senate and other constituent bodies by this Act respecting
(a) the formulation and adoption of academic policies and standards;
(b) the establishment of standards for admission and graduation; and
(c) the selection and appointment of staff.
1974-100-71.

Public meetings

71. (1) The universities council shall endeavour to hold its meetings in public at locations throughout the Province in which interested members of the public will be encouraged to express their views and concerns respecting the matters under consideration by the universities council.

(2) Nothing in subsection (1) shall be construed or interpreted in such a manner as to restrict the right of the universities council to conduct its proceedings in camera where, in its opinion, the public interest so requires.
1974-100-71.

Agreements

72. For the purposes of this Part, the universities council may, subject to the approval of the minister, enter into agreements the universities council considers advisable with
(a) Canada;
(b) a municipality;
(c) a regional district;
(d) an agent of the Crown in right of the Province or of Canada;
(e) any ministry or department of a provincial or the federal government; or
(f) any person or association.

Reports

73. (1) The universities council shall submit to the minister on or before October 15 in each year
(a) a report respecting the operation of the universities council for the immediately preceding fiscal year; and
(b) with respect to the operations of the universities, a report including
(i) the draft budgets for the next fiscal year submitted by the universities to the universities council;
(ii) the draft budget for the next fiscal year prepared by the universities council on behalf of the universities and submitted by the universities council to the minister;
(iii) a resume setting out the financial resources provided to the universities council for the universities by the government of the Province for the current fiscal year; and
(iv) a statement setting out the allocation by the universities council for the current fiscal year to each university of the financial resources provided by the government of the Province.
(2) The minister shall lay the report of the universities council before the Legislature within 15 days after the commencement of the first session in the following year.

1974-100-74.

Inquiries

74. The universities council, or any other person authorized in writing by it for the purpose, may make the inquiries it considers advisable for the purposes of this Part and, for this purpose, it
   (a) may examine any person under oath; and
   (b) has all the power and authority of a commissioner under sections 12, 15 and 16 of the Inquiry Act.

1974-100-75.

Financial administration

75. The provisions of sections 11 (2), (3) and (4), 14, 15 and 16 of the Science Council Act respecting the council under that Act apply to the universities council.

Description of
University Budget Preparation Processes:
UBC, SFU and UVic
THE UNIVERSITY OF BRITISH COLUMBIA

BUDGET PREPARATION AND CONTROL PROCESSES

I. INTERNAL

(A) Formal scheduled steps in budgetary process

The budgetary process involves a series of consultations as follows:

(1) General discussion with Deans - broad objectives in keeping with UBC Mission Statement or other long term academic plan.

(2) (a) Departmental submissions to the Dean.

(b) Dean's submission to the President.

(c) President's Office - interviews with Deans.

(3) Collective review with Deans and Vice-Presidents.

(4) Senate Budget Committee.

(5) President's Office.

(6) Finance Committee of Board and Board of Governors.

Examination of Base

Prior to step 2(c) above the President's Office conducts a detailed examination of the budget base. This procedure involves a line by line review and enables us to:

(a) correct any earlier errors of calculation or judgement

(b) remove or adjust non-recurring items

(c) review positions where encumbent is retiring, terminating or has died, in terms of whether the function is to be continued and at what level.

(B) Ongoing analytical activities and assessments

Data relating to staffing, student enrolment and costs are kept under continual review by the President's Office and are made available to the Deans and to the Senate Budget Committee.
II EXTERNAL

In addition to the internal processes used in formulating fiscal planning, the University is subject to review and examination by external agencies. These include:

(a) Comparative studies among institutions e.g. by Canadian Association of Business Officers.

(b) Accreditation bodies for professional schools like Architecture, Dentistry, Engineering, Medicine and Nursing.

(c) Universities Council of British Columbia review of proposed new programs and budgets.

(d) Peer review of research proposals to granting agencies provides another dimension to assessment of capabilities and quality of faculty.

All of the above internal and external processes are directed to the use of the budget as a management tool for the optimum allocation of resources to meet continuously evolving needs. This process embodies the concepts of program budgeting, management by objectives and zero base budgeting.

III MONITORING

Apart from a general overview of academic matters by Senate and a similar review of business and fiscal activities by the Board of Governors, university affairs are monitored at two levels in the following way:

(A) General

(1) Academic Deans

(2) Committee of Deans and Administrative Heads

(B) Specific

(1) Establishment of policies and procedures including policy on supplementary income.

(2) Internal audit and control.

(3) External audit annually by Auditor General.
In addition to the above internal monitoring activities, the University supplies a continuous stream of data to the Universities Council of British Columbia on all aspects of university activities.

June 4, 1981
Dr. Robert Stewart  
Deputy Minister  
Ministry of Universities,  
Science and Communications  
Parliament Buildings  
Victoria, B. C.  
V8V 1X4  

Dear Dr. Stewart:  

At our meeting of April 24, 1981, which was held in the UCBC office to address the issues raised in the Treasury Board's conditions which were attached to the Ministry's budget, each of the universities undertook to address a number of issues related to measures or activities to be included in the reporting system, the question of a possible application of Zero Base budgeting, and certain matters related to the budgeting process employed within the universities. I will attempt to speak on each of these in turn.

Zero Base Budgeting and Reporting System

We are, of course, willing to participate in any consideration related to the possible application of Zero Base budgeting but must express some initial reservations in this regard, including:

1. Zero Base budgeting practices have merit when applied to operations which are essentially production oriented but its appropriateness in a university environment is questionable. Indeed, a conclusion of one university which undertook an extensive assessment of Zero Base budgeting was that it was quite inappropriate, particularly in the academic components of the institution.

2. Any such examination would be very time consuming and would require the involvement of some of our most knowledgeable and busy people, especially in the area of finance.
Given the limitations of our staffing levels, it is not readily apparent to us how the demands of such an undertaking could be satisfied in a reasonable manner.

3. We have, before now, given brief consideration to the possible application of Zero Base budgeting but our persuasion has been that the budgetary practices which we follow are more appropriate and sensitive to the realities of our institution. I will briefly address certain of these budgetary considerations below.

It is our understanding that the Treasury Board desires to see a reporting system which would provide a reconciliation, by object, of the operating grant allocation and the actual expenditure for the fiscal year. The universities and Council are currently addressing this matter with the objective of attempting to include, in the schedules supporting the 1982/83 operating request, a reconciliation for the recently completed fiscal year 1980/81. It must be noted, however, that any such reconciliation is reasonably complex. On the one hand, the operating grant is, in large measure, based on the annualization concept whereas the financial statements of the institution which report actual expenditures is of course not annualized. Also, for example, the financial statements include non-recurring expenditures and other real operating events in a manner different than that embodied in the operating request. To repeat, such a reconciliation is under development but it may also be helpful to Treasury Board personnel, in addition, to be provided an opportunity to become more familiar with university budget and accounting practices.

Budget Preparation Process

The budget preparation process at Simon Fraser University, as at the other universities, is largely dominated by the fact that we are a people intensive operation. That is, our human resource absorbs approximately 80% of our operating funds. As such, our budget preparation process is strongly affected by the manner in which we control our authorized staff complements, not only at the time of the budget preparation or aggregation, but throughout the fiscal year.

Our detailed budget aggregation process is under way by December 1 of the year preceding the upcoming fiscal year. Submissions are prepared at the departmental level embodying both proposed complement changes and non-staff support projections. These are related to departmental planning, programs, and objectives for the ensuring fiscal year. The budget requests are advanced up through the organizational structure to the Vice-
President and Presidential level. In addition, similar budgetary proposals are prepared related to university-wide activities or expenditure areas. These requests are analyzed both with regard to the merit of the request as judged by our administrators and in relation to the limitation of our projected financial resources. We seek to consolidate a preliminary operating budget by the month of March, pending determination of the actual operating grant. Upon determination of the actual operating grant, such modifications as may prove necessary are incorporated prior to submission of the budget to the Board of Governors for approval. We also seek to obtain that approval as early as possible in the fiscal year in order that individual operating units may have confirmed to them the human and financial constraints within which they must function.

Operating Grant Request

The above outline of budget preparation process relates to the university budget for the fiscal year as distinct from the process which ensues prior to the submission of the operating grant request to UCBC. The lead times which attach to the UCBC submission are such that it would be quite impractical to call for departmental and faculty requests and to incorporate these in the operating grant request. The submission to Council is made on August 15 and requires approval by the Board of Governors during the month of July. To even consider calling for departmental and faculty inputs would necessitate asking for these by early in May and at a time which, in the normal year, may even precede their budget allocation for the current fiscal year.

Our approach to the preparation of the submission to UCBC is therefore comprised of two parts, each of which is prepared by our senior administrators. Part 1 encompasses the annualized budget projection, and incorporates our forecast of salary and non-salary inflationary components together with a recognition of changes in academic and support staff requirements to meet projected enrolment obligations. In addition, any other continuing obligations, such as the increasingly onerous requirement to accommodate indirect expenditure support for external research grants, is included in Part 1. Part 2 of our submission is specifically intended to address potential non-discretionary allocations which may be made by Council as part of up to the 5% of the global operating grant which has been earmarked for allocation outside of the allocation formula. Included in Part 2 are such items as new and emergent programs, programs of distinction, development and enrichment of existing programs along with any other similar requirements. In each instance, actions by Senate or by the Program Coordinating Committee of Council
8 July, 1981.

Dr. R.W.Stewart,
Deputy Minister,
Ministry of Universities, Science and Communications,
Parliament Buildings,
Victoria, B.C.
V8V 1X4

Dear Dr. Stewart:

Re: Budget Preparation Process

As requested earlier this Spring, this letter attempts to describe the budgetary process at the University of Victoria.

Before describing some of the procedural aspects of our budgeting, I think it is important to comment on some more general points as follows:

1. All budgets are prepared on a fully annualized basis, so that there are no built-in commitments requiring increased government funding in subsequent years. Probably the easiest way to illustrate how this works is to take the example of the adding of a new clerical position to the "establishment". If it was decided that such a position was justified and was to be filled starting on January 1st, then the full annualized cost of the position, including personnel benefits, would have to be identified in the current year's base operating budget and set aside for the new position - notwithstanding the fact that the person would only have to be paid for three months (from January 1st to March 31st) in the current budget year.

2. The second general point I would like to make concerns our budget carry-over procedures. Unlike many public organizations, there is no incentive at the University of Victoria to fully spend your budget by the end of the fiscal year - in fact just the opposite is the case. We permit the carry-over of unspent budgets into the following fiscal year for use in meeting non-recurring expenditures. By introducing this procedure we have eliminated the year-end spending rush. Managers are encouraged to save funds to meet anticipated needs which could not otherwise be financed through the regular budget.

.../2
3. In the final analysis, no budgetary system will guarantee an effective utilization of resources unless the people working in the organization are committed to that ultimate objective. The critical place at which such a commitment is essential is at the working level i.e. within each operating department and unit. Therefore, at the University of Victoria we have developed a decentralized system of budgeting and financial control. We place a high degree of reliance upon department heads and managers to manage their units effectively and within budgetary limits.

The budgeting process at the University of Victoria for a particular year starts with the preparation and submission of budget requests to the Universities Council in early August each year. In developing our budget request we consult with Deans and other senior administrative officers. Our experience is that involving others such as department heads and chairmen at lower levels in the organization at this stage of the process results in the build-up of unrealistic budgetary expectations. At this stage we identify areas which are experiencing growth and enrolment pressures, any in which the opposite is occurring, the needs of administrative and support departments and maintenance requirements for new buildings. We also take into account new academic programme proposals which have been approved by the Senate, the Board of Governors and the Universities Council, and matters raised by the Senate's budget committee. This information, together with our knowledge about inflationary factors as they apply to universities, is then taken to the Board of Governors. The Board reviews our budget proposals and decides what level of salary increases should be requested. The Board then approves our total budget submission and the level of provincial grant support to be requested.

The next formal stage in the budgeting process does not usually occur until the Provincial operating grant for the three universities is known. In saying this it must be acknowledged that the budgeting process is in fact going on continuously as staffing decisions and plans are made on a day-to-day basis. In the main such decisions will usually involve the reallocation of resources, with budget increases limited to the probable increase which will be available through the grant allocation formula. (As an aside, it is noteworthy that the current uncertainty about the future of the grant allocation formula removes the one and only feature of university funding which permits any forward financial planning to occur.)

Once the Provincial grant is known and allocated amongst the universities we proceed to develop our actual budget for the year. This process is initiated at meetings of our Executive Council, which consists of the President, the Vice-Presidents, the Deans and the University Librarian. We have full and frank discussions about the relative priorities which might be assigned to such things as salary adjustments, inflation of non-salary costs, staffing increases, etc. We also discuss the need for tuition fee increases. As a result of these discussions, followed by informal discussions with the Finance Committee of the Board of Governors, we establish budget targets for each broad area of budgetary responsibility (for example for each Dean, for each Director of Administrative Services etc.,) and develop budget guidelines. Each individual is then requested to submit line-by-line budget proposals for all budgetary units within...
APPENDIX C

Basic Formula Used for Division of the
Annual Provincial Operating Grant
1970-71 to 1973-74

(a) 70% of the grant was allocated on the basis of the estimated number of weighted full-time equivalent students;

(b) 20% of the grant was allocated on the basis of the estimated number of full-time equivalent students (unweighted);

(c) 10% of the grant was divided equally amongst the three universities.
GENERAL PRINCIPLES UNDERLYING THE ALLOCATION OF THE ANNUAL PROVINCIAL OPERATING GRANT:

The methodology of allocation should reflect consideration of the principles outlined below. Once this has been done, the funding formula itself should:

1) Assist the individual universities in forecasting its provincial grant a minimum of two years in advance.

2) Recognize economies of scale in the universities.

3) Recognize that some costs vary with the number of students enrolled - ie: headcount, number of students to be served. (see footnote #2 below)

4) Recognize that some costs vary with the nature of the academic programs in which the students are enrolled - ie weighting of full time equivalents (FTE).

5) Allow the universities time to respond to the effects of enrollment declines.

6) Recognize the marginal costs of increased enrollments in stages over a period of years.

7) Be responsive in the long run to enrollment changes and shifts; and should, assuming constant dollars, result in declining average costs to the province as enrollment increases (and increased average costs if enrollment decreases).

8) Provide that the marginal costs to the province of increased enrollment in comparable programs will be the same at all universities.

9) Recognize the higher per student costs associated with a trimester operation in which enrollments are not approximately the same in each trimester.

10) Be subject to regular review, and in particular, should be revised as appropriate as an instrument of public policy objectives - eg. by changing the weighting system in response to a no growth situation, setting an increased participation percentage goal, etc.

11) Allow for amendments to be phased in if they result in significant resource reallocations between the universities. (see footnote #1)
12) Provide for funds to be distributed outside the funding formula for special purposes based on Council's judgement. In each year, these amounts should be considered in the light of the actual provincial grant and any other special services - eg. new and emerging programs, (see footnote #3 below), programs of distinction, upgrading or strengthening of existing programs, incentives for improved utilization of resources, maintenance costs for new capital construction, etc.

13) Recognize that in making grants for special purposes outside the funding formula, Council must make an explicit statement to the university or universities outlining precisely whether the funds are one time allotments or recurring, and if recurring the length of time over which they will be granted.

14) Be uncomplicated and economical to implement initially and to administer annually.

15) Be seen to be equitable by the universities and by Council.

footnotes #1 (reference item #11 above) - in addition to the effects of formula amendment, in the initial years of application of the new formula, any significant fluctuations from the historical funding patterns between the universities should be considered for particular Council analysis in order to allow for corrections in those initial years.

#2 - the issue of the effect of the growing number of part-time students will be addressed as one element of costs to be considered under item #3 above.

3# - the students anticipated to be enrolled into new and emerging programs will be included in the headcount and FTE calculations and the formula will provide value credits for these units. If projected student enrollment does not materialize, the correcting factor of the two or three year "time base" will adjust in future years. Under this method, only incremental costs will be added to the university budget for emergent programs, as at present.
3.0 PROPOSED ALLOCATION PROCEDURE:

3.1 The proposed basis on which a minimum of 95% of each year's grant would be allocated may be summarized as follows:

(a) The grant is allocated amongst the universities in proportion to the number of "grant units" for each university. A detailed description of "grant units" is given later, but in general they are based on actual enrollments two years earlier plus partial provision for anticipated enrollment increases.

(b) Adjustments are made to the amounts allocated on the basis of grant units in the preceding year to reflect the actual, rather than projected, enrollment increases which occurred the previous year.

3.2 Exhibit I (on page 10) provides a hypothetical illustration of the proposed allocation mechanism which is described in the following paragraphs of this section of the Report.

3.3 Initially determine the number of weighted and
unweighted FTE (Full-Time Equivalent) enrollments two years prior (Year I in the illustration) to the year for which the operating grant allocation is being made. A summary of the weighting system is attached as Appendix B.

3.4 The weighted and unweighted projected FTE enrollments for the year for which the grant allocation is being made (Year III) are determined. These projections are normally reviewed in late January or early February of academic year II and are agreed amongst the universities and the Council staff at that time.

3.5 Calculate the number of "enrollment units" two years earlier (Year I) and the projected "enrollment units" for the year for which the grant is being made (Year III) for each university as follows:

- A minimum of 6000 unweighted FTE's each
- 25% of the number of unweighted FTE's in excess of 6000
- The number of weighted FTE's

These figures are then summed for each university and in total to arrive at the number of "enrollment units" to be employed in the Year III Grant allocation.

3.6 The number of "grant units" for Year III are calculated for each university, and in total, by summing the following:

(a) The number of "enrollment units" in Year I;
   Five percent (5%) of the number of "Winter Session" headcounts in Year I (in the case of U.B.C. and U. Vic. December 1st figures are used and in the case of S.F.U. the average of Fall and Spring semesters is used);

(b) A trimester allowance to S.F.U. equal to 15% of the F.T.E. units included in Year I "enrollment units" (15% of 6500 "enrollment units" of University "B" in Exhibit I equals 975 "grant units");

(c) One third of any projected increases in "enrollment units" for the grant year (Year III) over two years previous (Year I) actual "enrollment units." (This calculation excludes any increases in FTE's up to a level of 6000 FTE's). No allowance is made for
projected enrollment decreases in the current year in order to allow time for the universities to respond to long-term declines.

3.7 The amount of the grant for Year III which is available for distribution on the predetermined basis is allocated in proportion to the number of "grant units" for Year III. Using the illustration in Exhibit I, the allocation may be summarized as follows:

<table>
<thead>
<tr>
<th>University</th>
<th>&quot;Grant Units&quot;</th>
<th>Allocation of 95% of Year III Grant (000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>57,000</td>
<td>$114,646</td>
</tr>
<tr>
<td>B</td>
<td>20,967</td>
<td>42,161</td>
</tr>
<tr>
<td>C</td>
<td>16,500</td>
<td>33,193</td>
</tr>
<tr>
<td>Total</td>
<td>94,467</td>
<td>$190,000</td>
</tr>
</tbody>
</table>

(It should be noted that the actual allocation should be made in strict proportion to the number of grant units, rather than using the approximate methods employed in this report).

3.8 The allocation in 3.7 above is then adjusted annually to reflect the previous year's actual enrollments at the three universities, since the Year II allocation would have been based, in part, on projected enrollment data for Year II. To the extent that a university over-(or under-) estimated its FTE and weighted FTE enrollments it will have received a larger (smaller) portion of the grant than would have been warranted by the actual enrollment data, if that data had been available at the time of Year II allocation. In part G of Exhibit I the amounts of Year II over-(or under-) allocations are determined and applied as adjustments to the Year III allocations described in 3.7 above. The effect of the adjustment is to require a university which has over-estimated its enrollment increase relative to those of the other universities to relinquish any excess grants.
received as a result. This will serve as an additional incentive to ensure the accuracy of enrollment forecasts.

3.9 The proposed allocation is applicable only to future years. However, in Appendix A the procedure has been applied to the total operating grant allocations for the last six years and compared with the results of the actual grant allocation.

4.0 RESPONSE OF ALLOCATION PROCEDURE TO PRINCIPLES 1-9, APPENDIX D:

4.1 Principle 1 - "Assist the individual universities in forecasting its provincial grant a minimum of two years in advance."

As explained above, each university receives a number of "grant units" which enables it to forecast its share of future grants. The number of "grant units" is primarily dependent upon actual enrollments experienced two years prior to the year for which the operating grant is being allocated. Thus each university is able to forecast "grant units" two years in advance.

4.2 Principle 2 - "Recognize economies of scale in the universities."

The allocation procedure views 6000 FTE's as being a reasonable minimum enrollment in the development of a university. Beyond 6000 FTE's the calculation of "grant units" recognizes economies of scale. For enrollments greater than 6000 FTE's the procedure treats FTE's as having costs equivalent to 25% of the cost of each of the first 6000 FTE's. Thus beyond 6000 FTE's the procedure implies declining average costs.

4.3 Principle 3 - "Recognize that some costs vary with the number of students enrolled - eg: headcount, number of students to be served."

It was the view of the Task Force that this factor was of significance during the peak periods of the year. At these times additional students impose further costs which
it was felt are primarily administrative in nature. The costs in question represent approximately 5% of the operating budgets of the three universities. Thus 5% of the Winter Session headcounts are included in the calculation of "grant units".

4.4 Principle 4 - "Recognize that some costs vary with the nature of the academic programs in which the students are enrolled - eg. weighting of full time equivalents (FTE)."

As proposed, both FTE's and weighted FTE's are used in determining the number of "grant units". The Task Force also considered the cost impact of shifts in the enrollment mix. For example, it is likely that a 100 student increase in an academic unit which has a broad enrollment base, could be more easily accommodated within an established budget than could a 100 student increase in another unit with a much smaller enrollment base such as in a professional program. While this issue has not been resolved the allocation procedure, as proposed, gives marginal "grant unit" increases after two years to the various weighting categories as follows:

<table>
<thead>
<tr>
<th>WEIGHT</th>
<th>MARGINAL INCREASES</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>62.5%</td>
</tr>
<tr>
<td>1.5</td>
<td>70.0</td>
</tr>
<tr>
<td>2</td>
<td>75.0</td>
</tr>
<tr>
<td>2.5</td>
<td>78.6</td>
</tr>
<tr>
<td>3</td>
<td>81.3</td>
</tr>
<tr>
<td>4</td>
<td>85.0</td>
</tr>
<tr>
<td>5</td>
<td>87.5</td>
</tr>
<tr>
<td>6</td>
<td>89.3</td>
</tr>
</tbody>
</table>

(These percentages only apply to enrollment additions above 6000 FTE's).

4.5 Principle 5 - "Allow the universities time to respond to the effects of enrollment declines."

As the proposed procedure uses enrollments from two years prior to the year for which the allocation is being made,
a university has at least two years (the usual period of term appointments) to adjust to declining enrollments in its own financial planning. Furthermore, no allowance is made for projected enrollment decreases in the current allocation year.

4.6 Principle 6 - "Recognize the marginal costs of increased enrollments in stages over a period of years."

In the proposal it takes two years before the full marginal costs of actual enrollment increases are recognized. For a given Operating Grant allocation only one third of the marginal costs of projected enrollment increases over the base two years earlier are recognized in the calculation of the number of "grant units."

4.7 Principle 7 - "Be responsive in the long run to enrollment changes and shifts; and should, assuming constant dollars, result in declining average costs to the Province as enrollment increases (and increased average costs of enrollment decreases)."

Responses relating to "enrollment changes and shifts" are commented on in the preceding paragraphs. In summary the proposed procedure reacts to shifts between academic programs and/or universities as well as to increases and decreases in enrollment.

As noted under paragraph 4.2 the proposal results in "declining average costs to the Province as enrollment increases (and increased average costs if enrollment decreases)."

4.8 Principle 8 - "Provide that the marginal costs to the Province of increased enrollment in comparable programs will be the same at all universities."

The same base enrollment is used in calculating "grant units" for each university (6000 FTE's). Beyond this point marginal costs are the same for additional students in comparable programs at all three universities. It should be noted, however, that average absolute costs per student will not be the same for comparable programs because of the economies of scale factor.
4.9 Principle 9 - "Recognize the higher per student costs associated with a trimester operation in which enrollments are not approximately the same in each trimester."

Current reliable data on the additional costs of a trimester system which might be usefully applied in the British Columbia university system are unavailable at the present time. Previous studies have indicated differential costs (two such studies were those commissioned by Simon Fraser University and the Council of Ontario Universities). Provision has been made for additional recognition to be given to the S.F.U. trimester system in calculating the number of "grant units". Furthermore, in its Recommendation 2.5, the Task Force suggests that the Universities Council consider undertaking a review of the additional costs associated with the trimester system and a cost-benefit analysis of that option to B.C. students. It is anticipated that the output of such a review, should it take place, would be useful if future revisions of the proposed allocation procedure are indicated in this area.

5.0 SPECIAL PURPOSE GRANTS:

5.1 In its Recommendation 2.2, on page 1, consistent with Principle 12, Appendix D, the Task Force indicates that not less than 95% of the annual Provincial Operating Grant should be allocated on a predetermined basis. The Task Force wishes to recommend the following exception:

"The amount to be distributed by formula should be not less than 95% of the Provincial Grant. However, should the Universities Council of British Columbia Special Purpose items reach a total of 5% of the Provincial Grant in any one year, then the Universities Council may encroach on the 95% portion of the Provincial Grant to a maximum of $1 million in that fiscal year for the purpose of providing it with a global discretionary amount for that year."

5.2 The Task Force fully agrees that these Special Purpose Funds should be distributed in accordance with Council's judgment as indicated in Principle 12 of Appendix D.
The Task Force recommends that the examples of Special Purpose grants contained in Principle 12 of Appendix D be replaced by the non-comprehensive list of examples of items for Special Purpose Funding contained in Appendix C.

5.3 Finally, the Task Force endorses Principle 13 of Appendix D which states:

"Recognize that in making grants for special purposes outside the funding formula, Council must make an explicit statement to the university or universities outlining precisely whether the funds are one time allotments or recurring, and if recurring the length of time over which they will be granted."

and further reiterates the absolutely essential requirement for an explicit Council statement as to duration of the Special Purpose Grants, in order to permit the universities to plan their internal allocation on a rational basis.

6.0 IMPLEMENTATION PERIOD:

6.1 It is suggested that Council give consideration in the early years to allocating more than 95% of the total grant on the predetermined basis. This would have the advantages of:
- softening the adjustments required for individual institutions to the new approach; and
- would enable Council to acquire experience and establish precedents in its determination of Special Purpose Grants.
### General Purpose Operating Grant (see notes) ($000)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Grant*</th>
<th>Operating Grant</th>
<th>FTE Enrolment</th>
<th>Restated in Constant 1971 Dollars*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual Allocations</td>
<td>Share of Allocation (%)</td>
<td></td>
<td>Total Grant</td>
</tr>
<tr>
<td></td>
<td>UBC</td>
<td>SFU</td>
<td>UVIC</td>
<td>UBC</td>
</tr>
<tr>
<td>1975-76</td>
<td>150,200</td>
<td>91,989</td>
<td>33,044</td>
<td>25,167</td>
</tr>
<tr>
<td>1976-77</td>
<td>170,400</td>
<td>103,921</td>
<td>37,739</td>
<td>28,741</td>
</tr>
<tr>
<td>1977-78</td>
<td>184,300</td>
<td>111,315</td>
<td>41,234</td>
<td>31,950</td>
</tr>
<tr>
<td>1978-79</td>
<td>200,578</td>
<td>122,286</td>
<td>44,131</td>
<td>34,161</td>
</tr>
<tr>
<td>1979-80</td>
<td>217,226</td>
<td>131,832</td>
<td>48,523</td>
<td>36,871</td>
</tr>
<tr>
<td>1980-81</td>
<td>239,612</td>
<td>143,324</td>
<td>54,318</td>
<td>41,970</td>
</tr>
<tr>
<td>1981-82</td>
<td>271,713</td>
<td>161,781</td>
<td>61,325</td>
<td>48,606</td>
</tr>
</tbody>
</table>

Notes:
*In addition to the above, specific purpose appropriations, referred to as operating grants (other), and cash capital equipment grants, have been approved in support of the following activities:
  - Expansion of non-metropolitan programs (from 1976/77)
  - Expansion of undergraduate medical expansion (from 1977/78)
  - Replacement of operating equipment (from 1977/78)

*Includes special $7.5 million supplementary warrant in connection with the Minister's 'no commitment' funding policy.

*Deflated by the Vancouver CPI, 1971 = 100
APPENDIX F

THE ALLOCATION FORMULA

How the grant units are determined

<table>
<thead>
<tr>
<th>Enrolment two years back in time</th>
<th>100%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>All students translated into FTEs</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>All students translated into WFTEs</td>
<td>SUM</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Economies of Scale</th>
<th>Headcount current year</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count the first 4,050 students</td>
<td>4,050</td>
<td>ABOUT 12% OF GRANT UNITS</td>
</tr>
<tr>
<td>10% in excess of 4,050</td>
<td>SUM</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The Trimester Adjustment</th>
<th>1,650</th>
</tr>
</thead>
<tbody>
<tr>
<td>SFU is given a constant 1,650 units</td>
<td>ABOUT 1.3% OF GRANT UNITS</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Enrolment Increase Expected</th>
<th>1,650</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/3 of projected increase over the current year</td>
<td>ABOUT 0.7% OF GRANT UNITS</td>
</tr>
</tbody>
</table>

SUM = 100% of grant units
At its meeting of May 28th, 1979, the Universities Council passed the following motion:

That the Universities Council adopt as a statement of policy on Programs of Distinction:

(1) That the Universities Council, in its annual funding recommendations to the Minister of Education, will include for programs of distinction a separate line item calculated at up to \( \frac{1}{4} \) of 1% of the current year's recommended provincial operating grant.

(2) That the Council shall allocate a sum of up to \( \frac{1}{4} \) of 1% of the provincial operating grant for programs of distinction. This allocation is a "special purpose grant" outside the funding formula, as defined in the Report of the Task Force on the Provincial Grant Allocation (p.8).

(3) That Council endorses the concept of allocating funds for programs of distinction for a three year period, commencing with 1979-80 for which year the funding will be based on Grant Units as defined in the Report of the Task Force on the Provincial Grant Allocation.

(4) That, as a general rule, a Program of Distinction will not be funded as such for more than a period of three years. Normally, continuation of the Programs of Distinction beyond the three year period will be at the discretion of the individual university, using its operating funds or other sources.

(5) That the programs will be selected on the basis of their particular economic, social, cultural or educational benefit to British Columbia, or their potential for national or international recognition. Since such criteria may prove difficult to establish beforehand, it is recommended that:
(a) the universities be relied upon to select programs which they feel to have the potential for making such a contribution for excellence and which can be further developed by the universities, and to report to the Universities Council, for information purposes, at the time of selection;

(b) the internal allocations made by each university be reported to the Universities Council at the time of the next operating budget submission;

(c) the effect of the additional allocation on programs thus identified as programs of distinction be assessed by Council after the said three years.