

Policy Analysis: Ontario Colleges' Performance-based Funding Model

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Introduction and Overview of the Policy Issue

The Northern Ontario region spans approximately 800,000 square kilometers, making up 90% of Ontario's landmass (Robinson, 2015), and includes six Ontario colleges, including Sault College in Sault Ste. Marie. Algoma Steel, Sault Ste. Marie's largest employer faces unprecedented economic challenges due to U.S. tariffs, which could result in the layoff of up to 1,200 employees over the next year. This economic disruption impacts Sault College and other Northern Ontario post-secondary institutions that are responsible for retraining displaced workers.

The funding policy for Ontario Colleges was significantly changed in 2019 when the newly elected Ontario government shifted funding from an enrollment-based system to one that emphasizes performance metrics, including students' skills, job outcomes, and economic and community impacts (Government of Ontario, 2025a). Although well-intentioned, during times of crisis and rapid economic change, this funding policy disadvantages Sault College due to regional disparities and limits its ability to respond to economic disruptions, such as potential layoffs at Algoma Steel. The policy aims to promote accountability and economic alignment, requiring colleges to improve efficiency and ensure that training matches labour market needs.

A funding model that supports regional resilience, economic diversification, and social equity enables Sault College to provide education, training, and development opportunities for displaced workers. This paper uses equity-focused policy analysis to investigate systematic inequities in Northern colleges, emphasizes regional impacts, and proposes actionable policy changes grounded in education equity theory. Evidence demonstrates how funding policies can be modified to promote equity in regions facing upheaval, such as Sault Ste. Marie and Northern

Ontario. Ontario's performance-based college funding model fosters accountability and labor-market alignment but disproportionately challenges Northern colleges, limiting access for marginalized students and reducing responsiveness to local economic disruptions. Implementing weighted funding, hybrid models, and regionally sensitive metrics would enhance equity, sustainability, and colleges' capacity to support local communities and workforce needs.

Policy Components

Description of the Policy

Before 2019, Ontario colleges' funding policy mainly focused on enrollment, with only 1.2% of funding linked to performance (Government of Ontario, 2025b). The new performance-based funding (PBF) model shift is based on a broader shift toward market-driven government, allocating 60% of funds to enrollment and 40% to performance outcomes such as graduate employment, skills alignment, and student satisfaction. Additional performance metrics include students' skills and employment outcomes, as well as economic and community impacts (Government of Ontario, 2025a). This policy aims to improve organizational efficiency, accountability, and alignment with labor-market outcomes, reflecting the principles of New Public Management. Although designed to promote equity among Ontario colleges, this policy disadvantages those in Northern Ontario due to regional disparities. It also limits Sault College's ability to respond to economic disruptions, like potential layoffs at Algoma Steel. Additionally, the 2019 model froze domestic tuition fees and reduced them by 10%, while the cost per student now exceeds the proportion of government funding allocated to Ontario's post-secondary institutions (Ontario's Universities, 2025). It's important to note that layoffs often prompt displaced workers to seek additional training at local postsecondary institutions, thereby increasing enrollment funding.

The Ontario Ministry of Colleges and Universities, Sault College, and other Northern Ontario postsecondary institutions are the primary stakeholders of this policy. Other stakeholders include college administration, which implements the policy; students (including those who may become displaced workers); educators and faculty; support staff; unions; employers; and the local community, including the local government and workforce development board.

Historical and Theoretical Context

Before 2010, Ontario colleges mainly relied on enrollment-based funding through per-student or weighted student unit approaches until the implementation of the corridor funding model in 2017, which limited funding-eligible enrollment. Fiscal pressures, increased focus on public spending value, and labor-market demands prompted the change, leading to the current PBF model. While the model aimed to promote fairness by rewarding outcomes instead of size, it overlooks structural inequities that disadvantage smaller Northern institutions. The 2019 policy shift officially moved toward performance and productivity weighting, requiring that by 2024-25, up to 60% of operating funding be tied to performance. Concerns about equity, diversity, and inclusion, along with ongoing adjustments due to the pandemic and federal immigration policies, have complicated policy implementation. This funding model does not account for education equity, which argues that resources should be distributed based on students' different needs rather than equally among all students (Zhu & Li, 2025, p. 235). Outcomes include fair access, participation, and success for students facing systemic barriers. Historically marginalized students have had more opportunities to reach academic goals when funding policies prioritize equity. Where equity allocates the same amount of funding per student, it also advocates for redesigning resource distribution to address historical and systemic barriers.

Opportunities for Implementation

Potential Benefits

Institutional revenue depends on performance metrics such as graduation rates and employment outcomes, which often reflect student demographics and socioeconomic factors. From an equity perspective, emphasizing performance incentives can motivate institutions to better support marginalized students and increase their success rates. However, there is concern that colleges serving marginalized populations might be penalized for lower outcomes. Additionally, student success is often prioritized after employment, when completion matters most, which could cause students to avoid applying to programs of greatest interest. It can be argued that the current funding policy aims for equity in outcomes but does not provide equitable resources to achieve them. To address this, the Ontario government recently announced changes to the funding model to account for regional differences. Accountability, job-relevant credentials, and measurable value for public funding emphasize market-based efficiency and the New Public Management theory rather than equity theory. The New Public Management theory and policy approach advocates operating government like a private business, emphasizing increased transparency and accountability and using a market-based approach (Adbullahi, 2023). Due to performance indicators strongly associated with socioeconomic background, education equity challenges Ontario's productivity-based funding, indicating disadvantages for colleges with higher proportions of underrepresented or marginalized learners. An example of an Ontario college that successfully increased graduation or employment rates under the new PBF has yet to be realized.

Alignment with Goals

Despite concerns about equity, PBF offers several potential benefits. Colleges can use performance incentives to strengthen student support programs, improve graduation employment rates, and align curricula with labor-market needs. When effectively implemented, PBF can incentivize targeted student support initiatives, boost retention rates, and ensure curricula match labor-market demands. Given a looming \$265 million deficit for Ontario colleges this fiscal year, funding increases are essential to maintaining industry sustainability (Callan & D’Mello, 2025). To address this, the Ontario Government recently announced plans to consider funding adjustments to offset the average 30% decline in institutional funding resulting from federal changes to student immigration policies (Callan & D’Mello, 2025). Additionally, to connect funding to graduation rates and employment outcomes, colleges can improve student support programs such as tutoring, mentorship, career advising, and placement services to achieve measurable improvements in PBF.

The Ontario Ministry of Colleges and Universities' 2024-2025 strategic plan highlights supporting students in reaching their career goals, maintaining affordable tuition, expanding work-integrated learning through employer partnerships, and continuing focus on micro-credentials (Ontario Colleges, 2024). Funding policy updates are expected to bolster these strategic goals. The education equity theory suggests that fair outcomes depend on distributing resources based on students' diverse needs, indicating that allocating 40% of funding to productivity and performance metrics may create equity challenges, particularly for colleges serving marginalized students. At Sault College, the student body includes rural, northern, low-income, first-generation, and Indigenous communities, which often begin with lower baseline outcomes in completion and employment, potentially resulting in less support when additional

help is needed to bridge these gaps. Overall, while PBF supports the goals of accountability and labor-market relevance, its implementation should be adjusted to ensure equitable outcomes for students in Northern Ontario. PBF encourages colleges to align programs with labor market needs and ensure that graduates develop skills that employers actually require, thereby enhancing student readiness and aligning positively with policy objectives. Linking funding to measurable outcomes promotes transparency and evidence-based decision-making, fostering innovation in program delivery and curriculum development. In Northern regions, this policy could motivate colleges like Sault College to expand training programs for displaced workers, improving local employment outcomes and institutional performance.

Challenges to Implementation

Barriers and Obstacles

This policy overlooks regional economic disruptions, such as the upcoming layoffs at Algoma Steel, and these standardized performance metrics disadvantage smaller northern Ontario colleges due to fewer program offerings, lower retention caused by rural migration and socioeconomic barriers, and limited access to large employers for employment and training opportunities (Milian et al., 2020). Rigid performance metrics tied to Southern Ontario are irrelevant given the different challenges northern students face. As explained by Milian et al. (2020), the elimination of programs may force students to compromise their career interests, take lesser-interest programs offered by local institutions, or forgo studies altogether, opting to enter the workforce, which dramatically reduces their earning potential and suppresses human capital and skills development. Alternatively, northern communities face the risk of out-migration for students who leave to pursue higher education in Southern Ontario.

There is a lack of responsiveness to regional economic shocks and lengthy approval processes for new programs, which hinder the ability to quickly launch short-term retraining initiatives. According to the *Value-for-Money Audit: Public Colleges Oversight*, prepared by the Office of the Auditor General of Ontario (2021), it was found that “while the Ministry is responsible for approving public college programs for funding and granting consent for degree programs, significant delays in the Ministry’s program approval process is hindering the colleges’ ability to launch programs in a timely manner for student enrolment” (p. 6). Additionally, the report states that, compared to all other provinces, Ontario has the lowest funding for full-time domestic students (p. 4). Further potential obstacles include enrollment fluctuations in small communities and changing demographics. These obstacles highlight the tension between the policy’s goal to boost performance and the real-world challenges of serving diverse regional populations.

Unintended Consequences

When programs are cut due to poor performance metrics, fewer local pathways remain. Students may leave Northern Ontario for Southern institutions and not return, creating additional shortages and labor gaps that further hinder an aging population and contribute to regional economic stagnation, along with the erosion of access and regional mental drain. There is a risk that colleges may avoid enrolling high-needs students, such as first-generation, Indigenous, low-income, and mature students, who traditionally have lower completion rates and employment outcomes, thereby conflicting with the mandated mission of the funding policy. Additional risks arise when programs vital to communities are eliminated based on poor metric scores, regardless of their contribution to community vitality. This risk increases and encourages colleges to shift from a public-good mission to a market-driven one. Lastly, funding that supports enrollment

fluctuations and local economic cycles, such as the Algoma Steel disruptions, leaves colleges in a vulnerable position, intensifying budget instability. These unintended outcomes show that a performance-based model without equity adjustments can worsen systemic disadvantages for marginalized students, contradicting the principles of fair access and participation.

Examples of Challenges

An example of the policy facing challenges during implementation was its heavy reliance on international-student tuition, which made it vulnerable to changes in immigration policy. The federal caps on international student visa permits in 2024 and 2025 caused significant revenue deficits and threatened financial stability (Milian et al., 2020). As previously discussed, Ontario has the lowest per-student funding in Canada. A decade of underfunding for domestic students and low per-student public funding, combined with tuition freezes, led colleges to redirect business toward alternative revenue sources such as international tuition fees. At Sault College, decreased international enrollment along with tuition freezes worsened funding shortages, demonstrating the model's sensitivity to external shocks.

Analysis and Recommendations

Analysis

While the performance-based model encourages measurable outcomes, its reliance on standardized metrics and fluctuating funding makes long-term sustainability hard, especially in areas with smaller populations or economic instability. Scalability is limited without fixing regional gaps, as Northern colleges face structural challenges that Southern colleges do not. Until recently, financial stability depended on international tuition and external policy changes that quickly destabilized colleges, making them susceptible to financial crises. This already fragile system struggles with domestic tuition freezes and record-high inflation, which depletes budgets and makes it hard to cover rising costs. As with all policies, there are strengths and weaknesses.

Strengths of the Ontario College funding policy include encouraging accountability and performance focus, alignment with labour-market objectives, and potential efficiency gains. With 60% of funding tied to performance and productivity metrics, colleges are motivated to track outcomes such as graduation rates, employment, and skill acquisition. This incentivizes the college to meet labour-market needs and labour-market objectives that align with Ontario's stated priorities of affordable tuition, work-integrated learning, responsiveness to employer needs, and support for micro-credentials and peer-oriented programs. Additionally, colleges continuously search for operational efficiency improvements and focus on programs that deliver tangible outcomes for students and employers.

Weaknesses of the Ontario College funding policy include financial fragility, equity and regional disparities, and inflexible and slow responsiveness. Heavy reliance on international tuition has exposed colleges to Federal policy shifts that have led to financial vulnerability, and domestic tuition freezes and inflation have eroded operating budgets, leading to program cuts. Standardized performance metrics disadvantage northern colleges with fewer program offerings and limited access to local employers, and encourage avoidance of higher-need students, further undermining access and equity (Office of the Auditor General of Ontario, 2021, p. 2). Current program approval processes are lengthy, limiting the ability to rapidly respond to local economic crises and labour-market shocks (Office of the Auditor General of Ontario, 2021, p. 5). Rigid performance metrics associated with southern Ontario colleges do not reflect the realities of northern life.

Recommendations

The unusually high inflation costs that have increased over the past several years require significant adjustments to per-student funding. Implementing an annual adjustment over the next

three to five years can help ensure the institution's financial sustainability. A report by the Blue-Ribbon Panel on Postsecondary Education Financial Sustainability recommends increasing per-student funding. "Specifically, we recommend a one-time increase of 10%, which represents partial recognition of inflation from 2017, and adjustments in line with increases in the consumer price index, or a minimum of 2% per annum, thereafter" (2023, p. 20). Funding policy changes must include equity-based adjustments and address regional vulnerability indices such as economic dependency, population decline, and remoteness. Policy options include weighted or needs-based funding formulas, hybrid funding models, program flexibility grants, and regional or sector-specific performance metrics.

A weighted or needs-based funding formula considers regional and student-specific factors such as location, socioeconomic challenges, and the presence of Indigenous students. This approach addresses equity issues and ensures that smaller northern colleges are not penalized while serving marginalized community needs. Hybrid funding models combine stable funding for core operations and program delivery, with a smaller, more flexible portion tied to performance outcomes. This maintains accountability while protecting institutional stability, while improving responsiveness without undermining access to equity (Kelchen, 2024). Flexible program grants, such as the creation of a Northern Education Resilience Fund to support retraining during economic disruptions, would assist institutions like Sault College in supporting displaced workers, such as those from Algoma Steel, and respond to new industry needs and skill shortages. As discussed by the Office of the Auditor General of Ontario (2021, p. 5) found that delays in program approvals created barriers to responsiveness. A *Northern Education Resilience Fund* could circumvent these bottlenecks and create systems-thinking outcomes that support mission mandates. Regional or sector-specific performance metrics reflect local contexts and

promote regionally relevant metrics that ensure fair assessment of northern institutions. These actionable recommendations will help mitigate challenges and maximize opportunities.

Implementation should include periodic monitoring of enrollment, graduation, and employment metrics, with funding allocations adjusted as needed to ensure equity and efficiency.

Conclusion

Ontario's PFB model marks a major shift from enrollment-focused allocations to funding that prioritizes outcomes and productivity. While the policy boosts accountability, supports labor-market goals, and promotes operational efficiency, it also makes colleges, particularly those in Northern Ontario like Sault College, more vulnerable to financial instability, equity issues, and limited ability to handle regional economic shocks. Heavy reliance on international tuition, low domestic funding per student, and strict performance standards create structural weaknesses that can harm access, student success, and regional workforce growth.

Evidence from Northern Ontario highlights the unintended effects of this model, including program cuts, student out-migration, and a diminished ability to respond swiftly to local labor-market issues, such as layoffs at Algoma Steel. Standardized metrics unfairly disadvantage smaller colleges serving marginalized groups, while lengthy program approval processes delay timely responses to new training needs.

To promote sustainability and fairness, funding reforms should incorporate principles of education equity and regional considerations. Recommendations include adopting weighted or needs-based formulas, hybrid funding models that combine base funding with performance incentives, flexible program grants to address local economic disruptions, and region-specific performance metrics. Adjusting per-student funding for inflation and cost-of-living differences, along with targeted support for rural and northern institutions, can strengthen the system's

resilience and ensure that all students, regardless of location or background, have fair access to quality postsecondary education.

In conclusion, a revised funding approach that balances accountability, equity, and regional responsiveness will better support Northern Ontario Colleges in fulfilling their mission of preparing students for meaningful employment and supporting local communities during economic shifts. By aligning funding policies with both labor-market outcomes and equity principles, Ontario can foster a more sustainable, responsive, and inclusive postsecondary system.

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