



EMERGENT NEEDS IN EDUCATION FUNDING

*a submission to the Select Standing Committee on Finance
and Government Services from the BC School Trustees Association*

Context

In follow-up to the June 15th presentation by BC School Trustees Association President Stephanie Higginson, we wanted to provide the Select Standing Committee with some additional information and comments. We have included them within the text of President Higginson's original presentation to help ensure continuity with our key recommendations.

District Reserves

Uy' skweyul

'Uy' kwunus 'i lumnamu

E:nthe pe Stephanie Higginson Teheesenat Snuneymuxw

I have just given you a traditional Hulq'uimimum greeting which is the language of the lands upon which my own board of education is situated. I am coming to you from the lands of the Snuneymuxw First nation and I am presenting on behalf of the BC School Trustees Association.

The BCSTA represents all 60 boards of education from across British Columbia. Together, the province and boards of education co-govern BC's public education system. I extend my gratitude to the committee and my fellow panel members for their time and willingness to hear about funding implications for education.

After many years of misunderstanding and disagreement between the province and local boards of education regarding operating surpluses, district contingency funds and allocated district reserves, the Ministry of Education and BCSTA are working together on the creation of a provincial protocol on district reserves. Unfortunately, that work was interrupted by COVID and remains incomplete at this time. For more information on this topic, I encourage the panel to read the 2017 report of the Financial Health Working Group held on the Ministry of education website.

In order to properly manage emergent financial needs and fluctuations in both funding and revenues, all BC school

districts strive to maintain limited financial reserves. Just like the province, it is important that Boards of Education set aside a small percentage of their funding to deal with unexpected or unpredictable expenses that might arise during the school year. School districts also often temporarily hold funds that are intended for future uses, such as capital projects or student initiatives.

These financial reserves have been mischaracterized as 'surplus' funds that could and should have been spent by the school district or reclaimed by the provincial government. We call on the select standing committee to recognize the importance of school districts maintaining limited fiscal reserves (for the purpose of addressing both emergent needs and long-range projects), and support sound financial management practices by boards of education. Each year's provincial budget must recognize and take into account the important role these held funds play in properly managing and addressing the needs of students and school districts.

For example, a school district may hold a significant amount of money in reserves in preparation for the purchase of land for a new school or as its required contribution to the construction costs of a new school. Boards of education purposefully and rightfully often hold millions of dollars in reserve accounts for this purpose. The source of the money may be diversion of operating funds, the sale of surplus land or other assets, or unused dollars carried forward from other projects. These are not, however, 'surplus' funds that should be expropriated by government because they are unused. Without such reserves, school districts would not be established long-range strategic or facilities plans; nor be able to meet required funding contributions for capital projects.

It is important to note that school districts are also responsible for the purchase, installation and maintenance of portable classrooms from their operating budgets. Larger growing school districts spend millions of operational dollars each year for this purpose. Funds are often side aside (i.e. allocated) and are held in reserve to address emergent needs for portable classrooms each fall. While BCSTA believes the purchase and installation of portable classrooms should be funded as a capital

consideration (rather than out of local operating funds), we clearly oppose any notion that school districts be penalized for holding reserve funds to meet this often emergent need. BCSTA has maintained a long-term commitment to work with the Ministry of Education to establish appropriate common guidelines for the size, reporting and use of fiscal reserves. We remain committed to sound financial management practices by school district, but this must include the ability to create and maintain appropriate fiscal reserves. Mischaracterizing such funds as 'surplus' or 'unneeded' is inappropriate and harmful to the proper management of school districts.

COVID-19 Costs

I give you this information because while it may appear that boards of education will be finishing the year with larger than normal operational surpluses as a result of the suspension of in-class instruction, which may influence your thoughts with regards to how much money the province should allocate to education in BC, much of that money will need to be spent in the upcoming school year on COVID related costs. These costs include increased cleaning personnel and supplies, increased portable technology, professional development for our staff to adapt to this new normal, training in mental health support for students and staff, and what is sure to be an increase in staffing replacement costs due to much stricter rules regarding coming to work with symptoms and 14 day quarantine requirements. Further to this, many districts are facing loss of revenue from International Students, leaving large gaps in their operating budgets that will need to be filled. You can see the list is long and any cash surpluses from this year will quickly be utilized to cover COVID related costs in the upcoming school year.

If the current context continues beyond the next school year, there will be fewer international students in BC, resulting in large losses of operating revenue for many districts. These are the funds that allow districts to create programming that is unique to their local context, that drives the public in public education, and connects communities to their schools. In the upcoming school year, many districts will utilize their contingency reserves to help cover those revenue losses. However, with all of the other COVID related costs we expect to see district reserves be exhausted to cover costs related to the 20/21 school year. Going forward, even a return of 50% of international students we normally see in BC, we will see deep cuts in some of the largest school districts in the province, impacting hundreds of thousands of students. Therefore, if this becomes an ongoing loss in revenue it will need to be addressed in the next provincial budget

The K-12 education sector, along with almost every other part of our economy, will be facing organizational and financial challenges as a result of the COVID outbreak. International education in BC school districts is an important source of revenue, both locally and provincially. It is:

- The province's fourth largest economic sector
- Enrolls over 15,000 students per year in Kindergarten to Grade 12
- Generates over \$13,500 per student in paid tuition to school districts
- Provides homestay families with an average of \$900 per month in fees

Nationally, elementary and secondary school international education represents:

- 45,000 visiting students per year
- Up to \$16,000 per student in paid tuition
- Up to \$1100 per month in homestay fees

The estimated financial impact of the COVID outbreak on international education in school districts will include:

- The loss of tuition fees to school districts
- A loss of homestay fees to families
- The loss of travel and tourism spending
- Reduced patronage of community businesses
- The loss of health insurance and other premiums

It is critical that we work together to find solutions to these emergent and immense problems. To effectively address the anticipated decline in international students, we will need to the cooperation and collaboration of the provincial and federal agencies as well as school districts. There is no single solution to this problem, so the answers will have to come from many places. The support of the select standing committee for a coordinated approach to such problems that includes boards of education and school districts is very important to BCSTA.

Ongoing monitoring of the financial impact of the COVID outbreak, combined with an integrated plan to address the identified issues will be critical to school districts in the coming months and possibly years. Please support and encourage an inclusive, collaborative, ongoing approach to addressing the financial challenges of the COVID outbreak.

Education Funding

Finally, I would like to address the larger issue of overall funding to education in BC. While boards of education recognize that the province is currently facing significant economic uncertainty, we implore that this pandemic not result in a reduction of funding to the education budget. It is well documented through previous submissions to this committee that even a status quo budget will result in cuts to programming as a result of inflationary cost pressures faced by districts. Today's students do not deserve to have us invest less in them as a result of the current global pandemic. We owe it to them to ensure our education system remains the world class public education system that BC is known for.

The ongoing COVID outbreak has created immense challenges for everyone, including the province and school districts. The direct and indirect financial challenges that families, businesses and all levels of government are and will face over the coming months are unprecedented. We call on the select standing committee to recognize the importance of public education and to support future funding for school districts that will allow us to maintain current levels of programming and services.

We understand the limitations of provincial budgets as well as taxpayer's ability to pay, and support sound long-range financial management practices by all levels of government. We also see K-12 public education as a funding priority and a key to the long-term prosperity of our province.

Ensuring school districts have stable funding that allows them to maintain the world class education system we have created is immensely important to our shared future. We call on you to support the level of funding that is required to avoid significant cuts in educational programs, and not use education as a source of cash to address the current COVID crisis.

Capital Budget

In conclusion, I would like to finish with an offer of support for the province's economic recovery plan. The list of capital upgrades and replacement costs for schools across British Columbia is in the hundreds of millions, if not billions of dollars. Boards of Education have long been requesting capital upgrades and replacements to their buildings. As the government turns its attention to economic recovery and infrastructure renewal, we ask that the capital budget for education be a priority for this renewal program. We have learned so much about our ability to modernize the delivery of educational services for students through this pandemic. We should not let our buildings hold back our ability to act on this experience and prioritizing schools for capital renewal will provide a much-

needed outlet for economic recovery for the province while benefiting future generations of British Columbians.

We have attached three BCSTA research and position papers, the first outlining a recommended approach to partially funding more capital projects for BC school districts.

Building schools would provide our communities with valuable public assets, but would also help to support our province's economic recovery. Medium to large community-based construction projects create the jobs and infrastructure that we need more than ever right now. Building schools is a 'win-win' scenario for the provincial government, school districts and local communities. We hope that you will support school construction as a means of building our future.

The paper outlines a proposal to introduce school site acquisition charges at the municipal level as a means of generating the funds necessary to purchase land for schools. At present, cities and towns across most of BC are growing in both population and size. As these municipalities grow, there is increased demand for new school sites and buildings, but not enough money to purchase the required land. As you will appreciate, buying relatively large pieces of land (up to 20 acres) in the Lower Mainland, southern Vancouver Island or the Okanagan for example, is extremely costly. At present, the full cost of purchasing needed property falls to the province and school districts, and there is simply not enough money to meet need. The result is both missed opportunity and unfulfilled need.

School site acquisition charges would call on developers (who benefit from expanding communities) to contribute to the cost of purchasing the needed land for schools in these new areas. Something that is common practice in many other jurisdictions. We invite you to review the attached position paper, and to support our call for a new way of funding school site acquisition in much of BC.

The second and third research and position papers we have attached come from external working groups established by the Ministry of Education to review the funding of school districts as well as related governance issues. The papers review a number of issues regarding the predictable and sustainable funding of school districts as well as considerations for governance, accountability, fiscal reserves and capital projects. They are included as they point to the need for school districts to be funded in a way that ensures sustainability of educational opportunities and programs (in terms of both quantity and quality) as well as the need for better understanding and improved handling of how funding is distributed to school districts and then managed at the local level.

Appropriate funding of school districts by the province is not just about the quantity of the money provided each year, and must consider predictability, sustainability and flexibility if school districts are to deliver optimal service to students

and their families. We invite the standing committee to engage with us in a dialogue about how the supply and distribution of school district funding might be better managed at both the provincial and local levels.

Conclusion

Thank you for your time, I welcome any questions you may have regarding my presentation or anything education funding related that you want to know about.

The BC School Trustees Association appreciates the opportunity to present to the select standing committee and to provide what we believe are constructive and reasoned recommendations for supporting and funding K-12 public education in BC. Something that should remain a priority for both you and local boards of education. We look forward to future collaboration and cooperation in building a positive shared future for our province.

Stephanie Higginson
President, BC School Trustees Association (BCSTA)

On behalf of BC's 60 Boards of Education and the more than 500,000 students they represent. ■



SCHOOL SITE LAND ACQUISITIONS ISSUES AND SOLUTIONS

a report from the BC School Trustees Association

Context

The BCSTA formed a Capital Working Group (CWG) in September of 2018 to review various BCSTA resolutions adopted by the membership on government policy related to capital work in the sector. The review resulted in a recommendation to BCSTA's board to pursue various policy changes within government. That recommendation was subsequently adopted. This brief paper is intended to provide some background and recommendations on one of the issues discussed by the CWG; school site acquisition.

Recommendations

1. That the required legislative and regulatory changes be introduced eliminating the current cap on School Site Acquisition Charges (SSACs) and requiring school districts to set SSACs using a formula similar to that used for municipal parkland Development Cost Charges (DCCs). The formula would allow for an amount to be established based on the market value of the land to be acquired for a school site, (less the amount already collected for the purchase) divided by the number of remaining development units set by the Municipal Government serving the same geographic area as the school district. The calculation should be reviewed regularly to ensure the amount being collected reflects increasing land values over time.
2. That SSACs be updated regularly to reflect current land values.
3. That the required legislative and regulatory changes be introduced requiring municipal governments who charge development cost charges to include the cost of off site servicing of new schools in their municipal development cost charges. It is recognized some municipal governments do not have sufficient development to warrant establishing development cost charges at all. In those cases required off site servicing would necessarily continue to be attributed to new or replacement school construction costs.
4. That legislative changes be introduced to require that Municipal governments collect SSACs set by a school district.
5. That over the next ten years the percentage of provincial funding to be provided in addition to SSACs to facilitate school site acquisitions noted in the current regulations be gradually reduced from 65% of the total cost to as little as possible of the total cost recognizing the proposed increases in SSAC payments anticipated in recommendation one will take time to be collected.
6. That school site acquisitions continue to be approved and funded by the provincial government even if the locally collected SSACs are insufficient to acquire the necessary land, given the urgent need to proceed with new school construction in growing areas.
7. That school site acquisitions be authorized and encouraged to take place within five years of an Official Community Plan being adopted which identifies designated school sites or at the earliest reasonable opportunity upon request of a property owner, first utilizing available SSACs and additional funding as required from the Ministry of Education .
8. That developers continue to be provided with the option of dedicating designated school sites to the school district in return for the payment of SSACs being forgiven.
9. That Municipal governments and school districts be encouraged to enter into a purchase agreement wherein the local government front ends the acquisition of a school site designated in an Official Community Plan (OCP) utilizing available SSACs and additional funding from the local government which is to be paid back with interest through a combination of the collection of future SSACs and provincial government payments once approved in the school district's capital plan.

Background / Issues to be Resolved

Official Community Plans

Municipal governments are given the authority to adopt Official Community Plans (OCPs). The relevant legislation is found in the Local Government Act (Part 14, Division 4). OCPs identify acceptable land uses (among other policy matters) and the relationship between various land uses (residential, commercial, industrial, transportation and utility corridors, public amenities including parks and schools, etc.). Land use designations are also influenced by Agricultural Land Reserve boundaries, by defined environmentally sensitive areas and by environmental protection policies (i.e. stream setbacks etc.). Land use decision making is fine tuned at the point of development applications being considered through more detailed planning. However, once privately owned lands are designated for a particular use within an OCP there can be a reasonable expectation that it will eventually be used for that purpose subject only to the detailed planning mentioned above.

Municipalities are required to consult with school districts on the requirement for school sites within an OCP based on residential growth anticipated in the plan. The purpose of designating school sites at this point is to ensure the land being set aside for this purpose is suitable for its intended use. If Municipal Governments did not designate school sites at the point of adopting their OCPs there is a significant risk that appropriate sites will either not be available when needed or will be less desirable (i.e. hillside land which is more difficult and expensive to develop).

Timing

In order to secure the sites required to accommodate the school facilities needed to respond to anticipated residential growth they need to be acquired in a reasonable period of time following their designation within an OCP. Once land is designated as a school site in the OCP the owners are precluded from using it for another purpose (other than what it's current zoning permits) unless the OCP and zoning are amended. It has been suggested that government should require school sites be rezoned by municipal governments for school purposes once an OCP is amended to ensure development under current zoning does not further frustrate the use of the land for school purposes.

This does lead to the private owners of designated school sites asking school districts to either purchase the designated site at fair market value, based on highest and best use, or give it up so they can develop it for other uses (often residential development). There is legal precedent established to suggest governments must demonstrate

their intent to purchase sites designated in an OCP for a public purpose within a reasonable period of time following such designation or give up the designation (Hall vs Maple Ridge 1993). Many school site acquisitions have been delayed in the past until a decision is imminent to move ahead with school construction. Under these circumstances residential development can come close to surrounding designated school sites which have still not been authorized in capital plans to be purchased.

There are some circumstances where the scope of a single development is so large (i.e. a few thousand residential units) that the developer can be required to dedicate the school and park sites needed to serve the neighbourhood they are developing as a condition of that development. This is usually part of a servicing agreement in which DCCs and SSACs are forgiven equivalent in value to the value of the land being dedicated. Although this has happened in communities like Coquitlam it is actually quite rare that a single development proposal is so large that it can accommodate that type of school site and park dedication.

“Residential development can come close to surrounding designated school sites which have still not been authorized in capital plans to be purchased.”

Rationale for delays in purchasing

Delays in purchasing school sites have been justified in the past by suggesting that a new school may or may not be required in the area in the future and the cost to the province to proceed with the purchase is significant if insufficient SSACs are available. With this rationale school site acquisitions are not authorized to proceed until the school district and Ministry of Education are relatively close to making a decision to build a new school.

The problem with this approach is:

- Pressure from land owners of designated sites who want to sell their land often begins far in advance of government being prepared to acquire the property and build a school.
- Courts can order removal of the OCP designation if requested to do so by the land owners if governments are not prepared to follow through with acquisitions.
- The price of the land to be acquired can increase exponentially over time and could be subject to lengthy and costly expropriation proceedings.

Inadequacy of current SSACS

Part of the delay in moving ahead with acquisitions has at least in part to do with the inadequacy of funding for the purchase. SSACs have not kept up to increasing land values having been capped at no more than \$1,000 per single family residential unit when they were first introduced in 2000 (BC REG 17/00) and actually reflect no relationship to land values in different geographical areas of the province. The inadequacy of SSACs has resulted in more and more capital funding needing to be provided by the provincial government for land acquisitions for schools, which has contributed to even more justification for the delay in acquiring needed lands. In fact, the ratio between the amount of funding being provided by SSACs and direct provincial funding is heavily weighted to the provincial funding side of the equation. Although it can vary depending upon specific circumstances the current formula embedded in the regulation addressing this subject suggests 65% of the cost will be covered by government while SSACs collected for that purpose account for the remaining 35%. In fact, the ratio over the last year has meant provincial funding of over 90% of the total cost.

“SSACs have not kept up to increasing land values having been capped at no more than \$1,000 per single family residential unit ...and actually reflect no relationship to varying land values in different geographical areas of the province.”

In our view development should be covering close to if not 100% of the cost of land acquisition for the public services needed to support that development through much increased SSACs which are more frequently reviewed and adjusted to reflect current land values. We do not believe merely increasing the cap on SSACs in the current regulations will address the long-term problem.

The cost of off-site servicing required by municipal governments is another cost that should be a simple cost of development. We are suggesting that such servicing be required to be provided by municipal governments and funded through their own Development Cost Charges. We

“In our view development should be covering close to if not 100% of the cost of land acquisition for the public services needed to support that development...”

appreciate that is not possible in communities where the level of development is insufficient to warrant the collection of DCCS. In those cases the cost of off site servicing will necessarily continue to be a cost attributable to the construction of a new school.

Some would suggest additional contributions should be made for school building development as well, similar to municipal government amenity charges which are used to build fire halls and recreation centres. We are not suggesting the introduction of school amenity charges at this point but increasing the amount that development pays toward school site acquisition and off-site servicing makes sense. Setting SSACs based on a calculation similar to that used by municipalities in establishing park land acquisition DCCs and similarly timed is one way to ensure regular reviews of the charges so they reflect current local land values. Taking this approach would increase the percentage of school site acquisition costs being covered by development. We believe that, eventually, the additional funding this would add to the system would allow for earlier, more sensible, acquisition timing and the redirection of money currently being spent on land acquisition to other areas of need within the public school system.

Inflation/increased land values

More recently, over the last decade or so, another downside to delaying the purchase of school sites has become apparent. Inflationary and speculative pressures tied to rapid growth have increased land values significantly. Delays in purchasing land which will eventually be needed have resulted in millions of dollars of increased costs, some sites more than doubling in value in less than two or three years. We know the pace and scope of the increases reflected in this recent trend will likely not continue but some significant increases in cost are still likely over the long term. There are limits to the developable land area in the south coast area in particular which boasts the most desirable climate in the Country. With this the case purchasing land for school sites is at least a good investment even if they are eventually not needed for schools. We're not suggesting land acquisition as an investment policy but we are suggesting that land acquisitions are a relatively low risk long term investment for government, especially in rapidly developing areas of the province.

“Delays in purchasing land which will eventually be needed have resulted in millions of dollars of increased costs.”

All of this suggests the need to acquire designated school sites in a more timely fashion and to generate sufficiently increased revenue through increased SSACs to make that possible.

What about the increased cost of housing?

One of the arguments against this change which may be advanced by those in the development community is that any increase in charges like SSACs will result in increased housing costs at a time when governments are trying to keep the cost of housing down. In our view it is the competitive market that dictates pricing and the relatively small increase to the overall price that would be represented by increasing SSACs would be minimal albeit reflected in the bottom line of the development community.

It does seem to us to be inconsistent that the bulk of the cost of some public amenities and services required to support development are being passed along by municipal governments in the form of DCCs and amenity charges but not by the provincial government with respect to schools in the form of appropriate SSACs.

Transition

The implementation of increased SSACs will not have an immediate impact on land acquisitions which need to be addressed in the near term. However, making the changes now will have a longer term impact. Government fronting of current costs could possibly be tied to some kind of reimbursement to the province for up front acquisition costs from increased SSACs collected at a later date to a predetermined threshold. We've suggested government change the percentage to be covered by SSACs ultimately to 100% where continuing residential development is occurring and SSACs can be collected. This would represent a significant change to the current regulation of a 65/35 split (per BC REG 17/00).

We are aware of at least one local government willing to address the delay in the acquisition of designated school sites by fronting acquisitions if the school district and the provincial government do not currently have the resources to move ahead. This would require the Municipality to enter into a purchase agreement with the school district which identifies repayment with interest over time as SSACs and additional provincial funding become available. Naturally this would require Minister approval but should not be precluded if it makes sense.

Savings

A further argument for increasing SSACs to a level more reflective of actual land values is that of reducing the amount needing to be funded by the provincial government. The amount of money spent by the province as its share of land

acquisitions in 2018 was \$42.1M. Interestingly the total added to that amount from SSACs was only \$1.6M, meaning the 65/35 formula was not followed due to the specific circumstances encountered and the urgent need for the land in order to proceed with new school construction. In that instance provincial funding actually covered 96% of the cost.

“Although it will take some time to make the change and collect higher SSACs we are recommending the savings which are achieved through this change be redirected to address other capital needs like the growing level of deferred maintenance in our public schools.”

If SSACs had been collected over the years in the fashion we are suggesting sufficient to cover even 65% of the total cost of land acquisition the savings in provincial funding for the last year would have been in the order of \$26.8M. Of course, funding of 100% through SSACs would mean a saving of the entire \$42.1M. Although it will take some time to make the change and collect higher SSACs we are recommending the savings which are achieved through this change be redirected to address other capital needs like the growing level of deferred maintenance in our public schools. That doesn't mean additional funding isn't also required to adequately address deferred maintenance needs but acknowledges any savings achieved as suggested could be part of the solution.

Conclusion

It has been suggested by some that the current cap on the amount of school site acquisition charges that can be collected should be raised since it hasn't been increased for many years. While BCSTA views that as a positive step we believe a longer term solution is required that passes the largest part of school site acquisition costs and 100% of off site servicing along as an appropriate cost of land subdivision, development and housing densification. The alternative is to continue paying what amounts to 65% (according to the regulation) or over 90% (in reality) of the cost of land acquisitions plus the cost of off site servicing to accommodate growth in certain areas by using provincial tax revenues provided by all of the taxpayers of the province. In the current system taxpayers are subsidizing development quite considerably. As noted above there are other capital needs in the public school system which could be addressed if savings resulting from an appropriate change in the formula for school site land acquisitions and off site servicing can be achieved. ■

BCSTA wishes to acknowledge the work of the following members of BCSTA's Capital Working Group in preparing this discussion paper.

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FUNDING MODEL IMPLEMENTATION

**Financial
Management**

WORKING GROUP REPORT

OCTOBER 4, 2019

Background

The Financial Management Working Group (FMWG) was responsible for reviewing and discussing Recommendations 18, 19 and 20 of the Independent Review Panel's (the Panel) report and considering how this work aligns with the recommendations identified by the Panel under the Accountability theme. As such, the FMWG approached this work with the following agreed-upon parameters:

1. The FMWG respected the co-governance relationship between the Ministry of Education and boards of education and their respective roles and responsibilities.
2. The FMWG focused on how best to ensure transparency and accountability for the overall funding provided for public education (quantum) and the spending of the funding provided to each district.
3. The provincial government is solely responsible for establishing the annual quantum to be invested in public education. The sector wants an opportunity to inform and influence provincial decisions and better understand the quantum that is approved and provided through the provincial budget, including what costs are covered and any service expectations. As provincial funding reflects between 57 and 99 percent of school district operating revenues, the service expectation should be clear to all partners in education.
4. The FMWG focused on how to simply and transparently explain local spending decisions and services that can be expected by staff, students and parents as well as how resources are allocated to support students in improving their learning outcomes (goals in school district strategic plans).
5. The FMWG will look at better ways to understand how operating and capital reserves are funded and managed over time. Recognizing that capacity for administrative planning and reporting requirements differs among school districts, the FMWG will look at opportunities for more support at the provincial level.

The FMWG's advice is based on a financial accountability framework that includes the following components:

1. The goals and objectives of the Framework for Enhancing Student Learning are clarified and should form the basis for planning and financial accountability for the sector.
2. The Ministry of Education establishes goals in its strategic plan which will align with service expectations established in consultation with the sector and inform the total amount of operating funding made available to boards of education. The description of the quantum of funding will provide transparency and clarity for all parties to understand the components of the approved amount.
3. School districts will establish strategic plans with key goals and objectives that support student learning and achievement, with action plans that specify how services will be resourced in support of the plans.
4. Funding will be allocated to districts in a manner that recognizes the differences in costs to provide an equitable level of service to students across the province.
5. School districts will budget with transparent reporting on key decisions and how resources are used to address the needs of students and classrooms, in alignment with the goals and objectives that support student learning (outlined in #3 above).
6. There will be regular monitoring of expenditures against budgets throughout the year. Year-end financial statements and reports will provide clarity for local parties on how funding was spent and what was accomplished, relative to the goals and action plans established at the start of the year.
7. Evaluation at both the provincial and local level will inform future strategic and budget plans.

A more detailed overview of these components and timelines is depicted in Appendix B.

Recommendations

Recommendation 18 – *The Ministry should identify net cost pressures and new program expenditures and, as part of the annual provincial budget process, bring them forward to Treasury Board for consideration when the total quantum of public education funding is being set.*

The FMWG agrees with this recommendation and provides the following advice for implementation.

The FMWG acknowledges that Government retains responsibility for establishing the quantum through the annual provincial budgeting process, however FMWG advises that there be greater transparency in the process to determine the final amount and accountability for the services funded.

The FMWG suggests that sector partners be given opportunities to provide information to Government prior to decisions being made as input into the annual provincial budget process. Annually, the sector will provide input to Government in advance of the annual provincial budget process and include the cost of sustaining services, the cost of implementing known new initiatives and any cost reductions or savings that may be realized by the sector.

The costing work will be coordinated through the BC Association of School Business Officials (BCASBO) who will report this information to Government by October 31 each year for the following three school years (see potential example of an Information Document for Government in Appendix C).

The Ministry will supplement this information by clearly identifying any changes in provincial and local trends as identified by the data used to calculate components of the funding distribution model. Specifically, the Ministry will ensure that any changes to data that have cost implications, such as increasing numbers of students with health and mental health needs, children and youth in care and children acquiring language skills are considered. As well, geographic data, such as school size and capacity or weather conditions, is also communicated annually to Government for consideration when establishing the amount of funds to be invested in K-12 education.

Individual school districts, partner associations and other stakeholders can also provide input into funding and services for public education through established channels such as association submissions, ongoing liaison with the Ministry, meeting with local Members of the Legislative Assembly (MLA)s and presentations to the Select Standing Committee on the Finance and Government Services.

Once the provincial budget is approved, Ministry staff will translate it into school year components and be transparent with all sector partners on the funding included in the quantum. The Ministry should ensure a consistent process and format annually for sharing this information.

This implementation advice is supported by research and partner submissions:

- Forecasts and projections of future resource needs can be used by different entities across the budgeting process to ensure the education system's long-term fiscal sustainability and develop clear implementation paths for educational reforms (OECD, 2017).
- The effective planning of education funding strategies and reform initiatives requires not only the identification of future resource needs, but also the systematic mobilization of knowledge generated through research, programme evaluations, monitoring and audit activities (Fazekas and Burns, 2012).
- Strategic thinking and long-term planning are central to the successful governance of complex education systems (Burns, Köster and Fuster, 2016).

Recommendation 19 – *To support multi year financial planning:*

- *Government should issue three-year operating funding to boards of education, based on available funding and projected student enrolment; and*
- *School districts should be required to develop three-year financial plans.*

The FMWG agrees with this recommendation and provides the following advice for implementation.

Although the FMWG supports multi-year planning, the group notes the importance of clarifying and disclosing assumptions and risks involved in making financial projections over multiple years. The longer the planning horizon, the less accurate the projections. The FMWG envisions a three-year rolling cycle updated for the current and future two years.

To improve planning, Government should clearly announce what factors will be addressed in determining the annual quantum, such as regular enrolment, enrolment in higher cost programs, provincially approved labour settlements and government-imposed costs. The tool to estimate funding at a district level should be retained to assist in more accurate planning.

Three-year planning components should include simple schedules and background descriptions for regular operating costs, accumulated operating reserves and local capital (see Appendix D).

To support broader transparency, in addition to budget information currently provided, districts would be required to publicly provide a simple one-to two-page budget summary document for the annual budget which would outline key spending decisions and assumptions made for multi-year planning, as well as relevant risks to the plan (e.g., sensitivity analysis, see Appendices D and E).

The preparation of multi-year education budgets will assist districts in making informed and sustainable budgeting choices.

Recommendation 20 – *The Ministry should establish clear provincial policies on reserves to ensure consistent and transparent reporting while maintaining school districts' ability to establish reserves. Specifically, the Ministry should:*

- *Set clear provincial policies on what school districts may save for, directly related to their strategic plans;*
- *Establish acceptable provincial range for unrestricted reserves, encompassing accumulated operating surpluses and local capital, which should be monitored and reported on (if required);*
- *Ensure that school districts have specific plans attached to each item or initiative when setting reserves and provide clear reporting on how the funds were spent; and*
- *Work with school districts to transfer any overages beyond the approved threshold into a fund at the school district level, to be accessed only with Ministry approval.*

The ability to accumulate operating surpluses over time allows districts to more effectively spend their grants without the risk of losing unspent annual funding at fiscal year end and allows districts to address unplanned expenditures and longer-term needs and costs. Local capital reserves provide funding that facilitates longer-term planning for costs without a dedicated funding source, such as technology and equipment.

Historically, local capital reserves fund the purchase of capital items (e.g., vehicles) and other local capital requirements not included in the capital plan, such as administrative facilities. Currently, local capital reserves often cover capital purchases to accommodate enrolment growth purchases (e.g., portable classrooms) and can contribute to major capital projects. The local capital reserve accounts for capitalized asset purchases, even if funded from operating grants, have accounting rules that require districts to transfer operating funding to local capital and record these items as purchased from local capital.

The FMWG agrees that greater transparency is needed around operating reserves. Transparency is especially needed to understand the restricted portion, including why funds are being restricted, how these restricted funds are intended to be spent and how they are actually utilized (must be updated annually as part of the district budget process to capture new additions or adjusted plans to fully spend over time). Improved transparency will better inform discussions about the amount of funding required for capital and operating budgets to meet strategic plans and deliver services for students.

To drive consistency, the FMWG supports a provincial reserve policy in which the Ministry specifies the factors to include and provides a standard reporting template aligned to a three-year planning cycle to be provided as part of the annual budget instructions (see Appendix D). The policy must provide clarity and consistency across districts on restricted items. The policy must also ensure reporting on the spending from reserves and prioritize spending on the goals outlined in strategic plans for improving student achievement. Enhanced reporting will improve transparency on how the reserve was accumulated, the initial spending plan and whether the plan was met.

Once consistent restriction categories and simplified reporting is established, the unrestricted portion of the accumulated reserve – as reported in the audited financial statement – is expected to range from one to four percent. School districts whose unrestricted balances surpass four percent should provide the Ministry with a detailed plan to use the excess funds within the three-year planning window and a quarterly report on how actual spending compares to their plan. This will ensure that all districts strive to be within the expected range and there is Ministry monitoring as recommended by the Panel. This process would have similar expectations to the Ministry monitoring of districts in deficit. Districts should also have a plan to maintain an unrestricted reserve balance should it fall below one percent.

Local capital transfers from operating for the purchase of capitalized assets must be clearly identified in the three-year plan (see Appendix D).

With good financial planning and monitoring, districts can be more accountable for effectively spending their operating grants, avoiding a deficit position and planning for any reserves. There is an expectation of sustainable services for students over the planning period. Greater transparency in the planned use of reserves will also assist the sector in more appropriately identifying whether any operating funding is available for funding major capital projects.

The FMWG discussed Recommendation 22 and agrees that operating funding should be used for operating and minor capital items and government should fully fund capital plan program expenditures.

This implementation advice is supported by the OECD results of their study, *The Funding of School Education – Connecting Resources and Learning* (2017):

- More flexibility in the budget planning and execution process can serve to increase its responsiveness to unforeseen circumstances and changing priorities as well as provide incentives for the more efficient use of school funding at the planning stage.
- The planning of education budgets should also be flexible enough to respond to new priorities and unforeseen circumstances, as well as providing incentives for efficiency, for example through the transparent regulation of carry-over rights for unspent resources.
- Relaxing central input controls and increasing budget flexibility has been a common strategy to enable education authorities to pursue their objectives more efficiently and effectively.

Accountability Recommendations of the Panel

The FMWG reviewed the Independent Review Panel's accountability recommendations and noted the need for strong alignment with the recommendations on financial management.

Accountability mechanisms will be driven by the Ministry's *Framework for Enhancing Student Learning*, which requires boards of education to develop multi-year strategic plans for school districts and individual schools. Strategic plans will focus on improving educational outcomes for all students, as well as promoting equity for Indigenous students, children in care and students with diverse abilities or disabilities. Flowing from strategic plans, boards of education will develop aligned service and financial plans to resource and operationalize key goals and objectives.

To support strategic planning, the FMWG determined that the sector will benefit from a guidebook that provides resources, advice and best practices on financial planning and reporting. A comprehensive and accessible single-source resource document will improve consistency across districts; transparent reporting for parents, staff and community; and ensure government understands the financial plans and fiscal position of school districts. The Ministry will need to engage a knowledgeable group of individuals from the sector to assist in developing the guidebook.

The guidebook would need to be supplemental to the technical Operating Fund Account Descriptions, Budget Instructions, Financial Statement instructions, Capital Planning Instructions and Operating Funding Manual as an additional technical resource for secretary-treasurers and their staff that are supporting boards of education around the stewardship of public resources. The guidebook should accompany clear policy direction from the Ministry on provincial reporting and local policy requirements for boards of education and should not be overly prescriptive but provide helpful advice to boards of education and senior staff to ensure good financial practices and procedures.

While considering the accountability recommendations, the FMWG concluded that there needs to be a balance between increasing administrative burden on school district staff and implementing the accountability framework and improving transparency. The FMWG noted that not all school districts have the same level of planning and reporting capacity. It is important that the Ministry streamlines or reduces existing reporting requirements when adding new requirements in response to the Panel's recommendations.

Accountability Recommendations 14 and 16 are also supported by the FMWG. The group commented that providing an annual report may not be possible along with financial statements due to availability of student data at that point in time, and so may need to come slightly later in the year. The implementation of this advice should be accompanied by professional development for the sector to build capacity of school district staff on an ongoing basis.

Conclusion

The FMWG appreciated the opportunity to review the Panel's financial accountability recommendations for public education. Implementation advice is intended to support accountability and transparency while considering capacity and workload expectations for school districts. There should be common understanding of the spending decisions of boards of education and a framework to align strategic goals for improving student outcomes with local spending. This report seeks to provide a framework with clear roles and responsibilities and more transparent reporting of the financial decisions made by the Province and local boards of education. As well, district staff should be supported with a guidebook to help build capacity and support consistent planning and reporting efforts across the province.

Indicators of success will include the following:

- More clarity for funding of operating and capital expenses both at the provincial and local level
- More local engagement on finances and financial information
- Planning and financial decisions that are aligned and focused on student achievement
- Enhanced understanding of school district reserves
- Better understanding of variance between forecast to actual spending

The FMWG is available to answer any questions on this report and is hopeful that the Minister of Education will consider this advice for improving financial accountability.

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Appendix A: Working Group Membership and Meeting Dates

Membership:

Name	Organization
Kim Horn (co-chair)	Ministry of Education
Joan Axford (co-chair)	Implementation Coordination Committee
Greg Frank	BC Association of School Business Officials
Cam McIntyre	BC Association of School Business Officials
Andrea Sinclair	BC Confederation of Parent Advisory Councils
Scott Sieben	BC Principals' & Vice-Principals' Association
Christine Perkins	BC School Superintendents Association
Mike Murray	BC School Trustees Association
Michal Rozworski	BC Teachers' Federation
Rob Zver	Canadian Union of Public Employees - BC
Jan Haugen	First Nations Education Steering Committee
Keith Miller	First Nations Education Steering Committee
Archie Johnston	Independent Advisor
Paul Lewkowich	Office of the Auditor General
Lawrence Tarasoff	Rural Education Advisory Committee
Ian Aaron	Ministry of Education

FMI Secretariat Support:

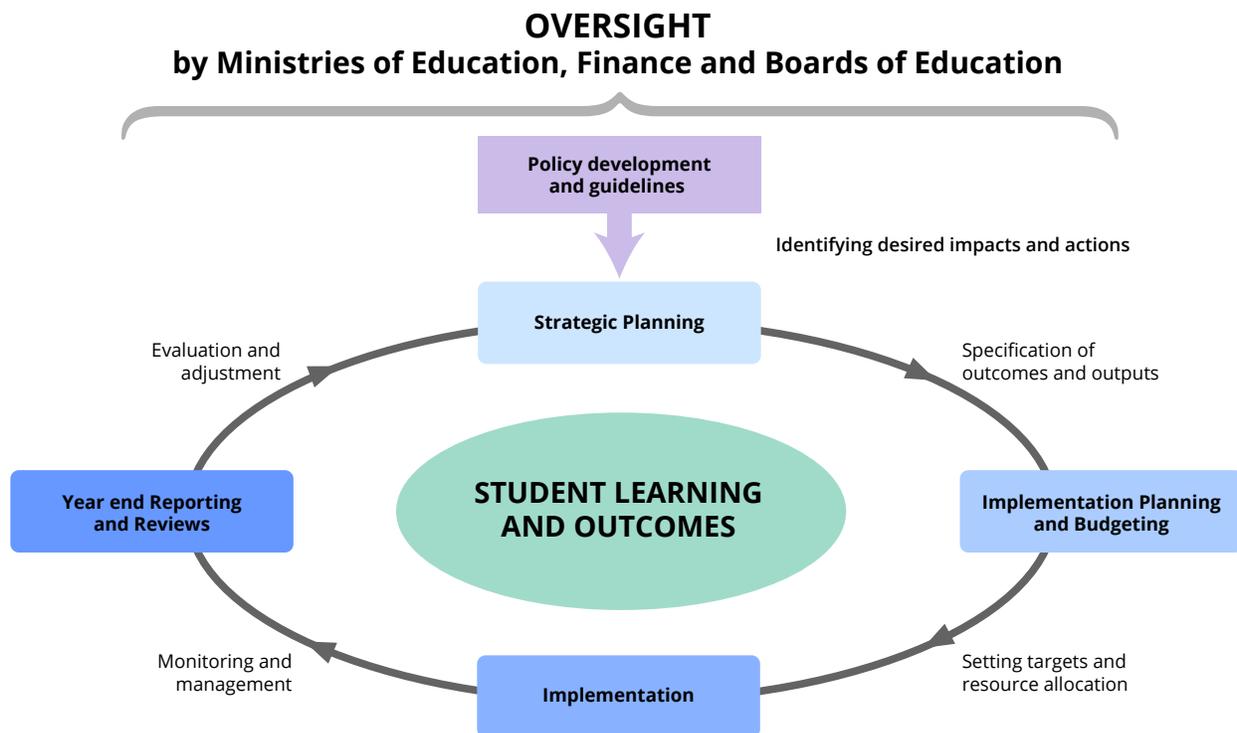
Alisha Olson	Ministry of Education
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Meetings:

- March 5, 2019 – Victoria
- April 2, 2019 – Victoria
- April 30, 2019 – Victoria
- May 28, 2019 – Victoria
- June 25, 2019 – Victoria

Appendix B: The Financial Accountability Components and Timelines

The proposed framework for financial accountability can be depicted as:



Timelines

- **Fall** – BCASBO provides cost and enrolment information to the province.
 - Ministry of Education updates its strategic plan goals and objectives in consultation with the sector and shares with school districts
 - Ministry prepares any budget documents for the Ministry of Finance and Treasury Board
 - Ministry reviews their policy documents for funding and financial budgeting and reporting and amends if required
- **December** - Amended funding for the current school year provides updated information to the province on the funding required.
- **February** - Provincial budget announced along with an information sheet on school year funding and commitments for the three-year plan (enrolment and compensation changes will be funded, etc.).
- **March** - Funding allocations to school districts for the following school year and budget instructions.
- **April - July** - School districts set their budget objectives in alignment with their strategic plan, approve and submit budgets. School district financial audits take place.
- **September** - School district financial statements that summarize school district financial health and progress to achieving their goals and objectives.
- Annual review and evaluation at all levels to inform updated strategic plans and future budgets which may involve an annual report, similar to a corporate report, that addresses student outcomes and includes financial information.

Appendix C: Example of Template for Tracking Sector Costs

LIST OF ESTIMATED COST PRESSURES					
Block Operating Grants required to cover Cost Pressures					
	2017/2018	2018/19	2019/20	2020/21	Comments
Cost of Enrolment Increases					
Cost Pressures Common to All School Districts					
Support staff wage increase					
Teacher Staff and TTOC wage increases					
Exempt Staff Increases					
Economic Dividend					
Labour Settlement Costs	-	-			
Upgraded New Generation Network Operating Cost					
Utilities					
Employee Benefits					
Liability Insurance					
New Programs					
General inflation -1.6%; 1.9% and 2% per year					
Other Cost Pressures	-	-			
Reductions in Costs					
New Procurement Entity, Insurance and Other					
Teachers Pension Plan Contributions					
Total Reductions					
TOTAL Cost Pressures	-	-			

Appendix D: Sample Reporting Templates for Three-Year Planning, Operating Reserves and Local Capital

Figure 1. Three-Year Operating Plan

Sample Three Year Operating Plan (Million \$)					Level of Risk (Conservative or Optimistic), Increasing or Decreasing over the Period
	Year 1	Year 2	Year 3	Assumptions	
Instruction	\$ 75.00	\$ 78.80	\$ 82.78	Enrolment is constant, inflation recognized	conservative -low risk as funding will increase with enrolment growth
District Administration	\$ 3.10	\$ 3.16	\$ 3.23	Compensation increases within	conservative - low risk
Operations and Maintenance	\$ 14.10	\$ 14.67	\$ 15.26	Inflation recognized	conservative - low risk
Transportation	\$ 1.88	\$ 1.94	\$ 1.99	Upgrade to add GPS to buses and cost	conservative - low risk
Total	\$ 94.08	\$ 98.57	\$ 103.27		
Salaries and Benefits	\$ 79.97	\$ 83.78	\$ 87.78	Salaries within mandate, benefits as projected by provider	low risk on compensation, high risk on cost of benefits
Supplies and Services	\$ 14.11	\$ 14.78	\$ 15.49	Increased by inflation	conservative low risk
Total	\$ 94.08	\$ 98.57	\$ 103.27		
Percent Change over Previous Year		4.77%	4.77%		
Revenue Projected	\$ 95.00	\$ 99.00	\$ 102.00		High risk that government will increase funding as projected and international students will continue to enrol and pay
Net Surplus/(Deficit)	\$ 0.92	\$ 0.43	(\$ 1.27)	District will draw on reserves in year 3 from the surplus in year 1 and 2	

Figure 2. Three-Year Plan for Accumulated Operating Surplus

Schedule of Operating Surplus Reserve	Opening Balance	Planned Utilization	Utilization	Additions	Closing Balance	Planned	Planned	Planned	Expected Balance	Comments
	July 1	Current School Year	Current School Year		June 30	Next Year	Year 2	Year 3		
Internally Restricted due to Contractual Requirements										
Collective Agreements										
School Generated Funds										
Contracts with outside entities										
Contracts with Employees for Compensation and Benefits										
Internally Restricted by Board of Education due to Policy and Practice										
School Based Budget										
Department Based Budget										
Contingency										
Capital Plan										
Technology Plan										
Next Year's Operating Budget-included in Annual Budget to Balance										
Purchase Order and Contract Commitments										
Strategic Plan Goals (provide details of expected Use and Timeframe)										
Detail										
Detail										
Detail										
Total Fund Balance that is Restricted										
Unrestricted Operating Surplus										
Percentage Unrestricted is of the Operating Budget										

Figure 3. Three-Year Plan for Local Capital

Local Capital		Planned for	Planned for	Planned for
	Current Year	Year 1	Year 2	Year 3
Opening Balance				
Sale of Property-Board's Share				
Detail				
Detail				
Detail				
Total Sale of Property				
Net Expenses				
Transfer from Operating				
Assets Purchased				
Detail				
Detail				
Detail				
Total Assets Purchased				
Interest earned				
Closing Balance				

Appendix E: Potential Sections of a School District Budget Summary Document

Budget Summary

Key Decisions Made in the Budget

Strategic Plan Goals Addressed in this Budget

Use of Reserves

Comparison with Previous Year by Function

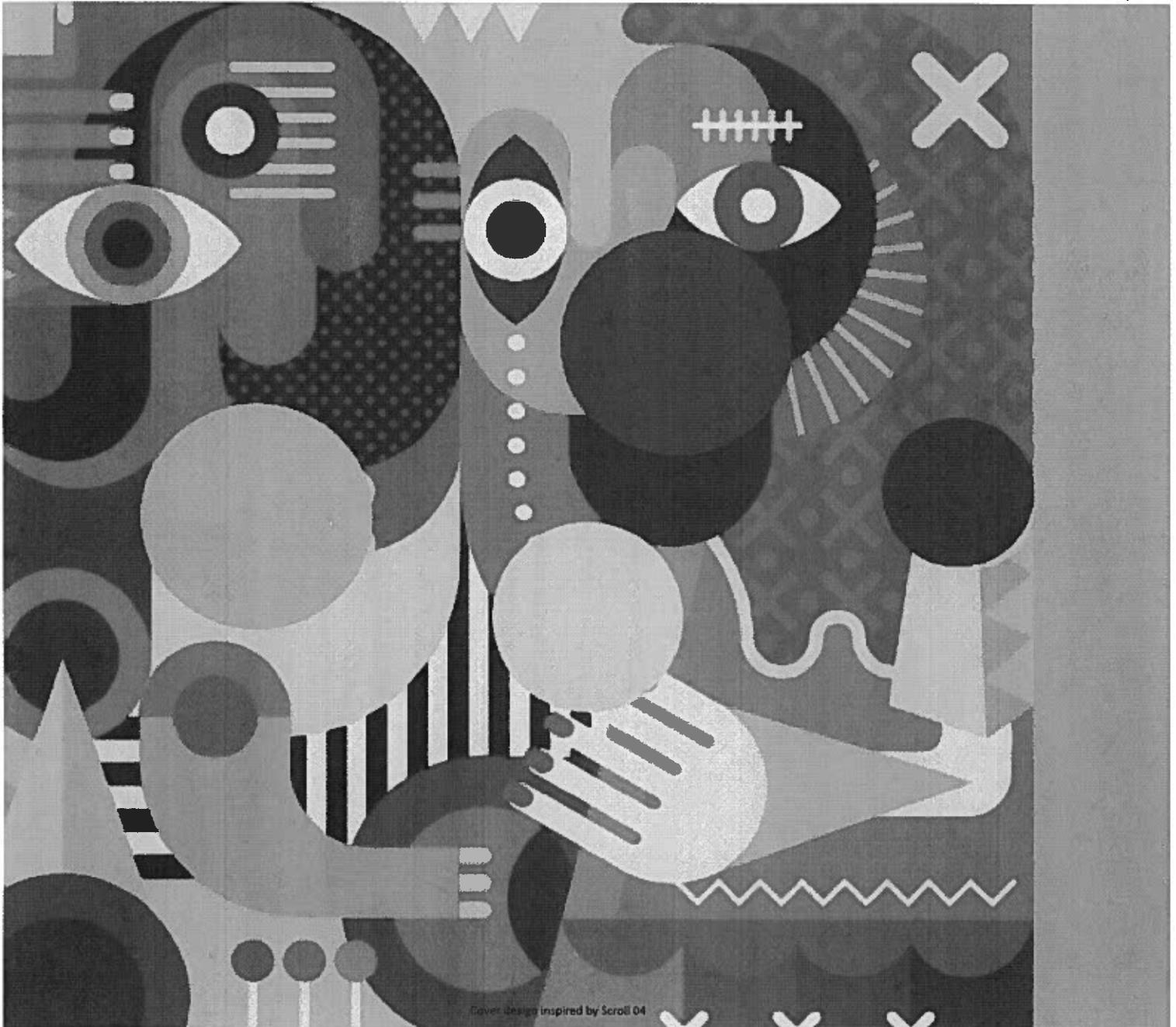
Three Year Plan by Function and Key Assumptions and Risks

Financial Governance and Accountability

School Districts of British Columbia

Material Prepared by the *Financial Health Working Group*

2017/18



Introductory Letter *from* Deputy Minister of Education

Over the past several years there has been a growing interest in Financial Governance and Accountability of school districts.

With recent auditor reviews and special advisor reports recommending strengthening the financial accountability framework of school districts, the Ministry of Education has developed good practice guidance materials in partnership with the Financial Health Working Group. This Group includes membership from the Ministry, BC School Trustees Association (BCSTA), BC School Superintendents Association (BCSSA), BC Association of School Business Officials (BCASBO), Office of the Auditor General, and Office of the Comptroller General of BC.

Together, we are building on an already solid base of financial accountability practices exhibited by the K-12 Public Education Sector. This work supports leadership development in the sector, and the Framework for Enhancing Student Learning.

These financial governance and accountability documents support boards of education in the work they do as governors of our education sector. For example, having reserve policies that reflect your district's education priorities.

Shortly after the Financial Governance and Accountability material is distributed, the Ministry will facilitate regional calls with trustees, superintendents and secretary-treasurers. These calls will be an opportunity to discuss your initial reactions and questions with members of the Financial Health Working Group.

Ministry staff will attend upcoming Association meetings where more in-depth discussion of the material can occur. The first of these meetings will be the 2017 BCSTA AGM in April. Other meetings will be held during BCSSA Regional Chapter meetings and the 2017 BCASBO AGM in May.

The documents included in this package are intended to provide advice that increases the transparency and understanding of school district financial health and consistent practice across all school districts. Important aspects of this work are:

- Reporting the benefit and plans for accumulated operating surpluses
- Establishing an audit committee
- Linking financial decisions to the school district's strategic plan and risk profile

These documents and toolkits will provide practical examples of questions that Boards of Education could ask their senior staff to ensure they have a full understanding of their school district's financial information.

The BCSTA, in partnership with the Ministry of Education, is developing additional material for Boards of Education that address capacity building for school board trustees.

The Ministry is interested in facilitating the sharing of ideas and good practices with regard to governance and financial accountability so that all school districts can benefit. More robust governance and accountability practices ultimately benefits the students of British Columbia to develop their individual potential and to acquire the knowledge, skills and abilities needed to contribute to a cohesive society and a prosperous and sustainable economy. After all, this is why we are here. Both BCSSA and BCASBO also provide professional development for their members on these topics.

The following resources are attached to this letter, and will continue to be updated as new toolkits and good practices are developed based on your input, for the benefit of all school districts:

- Ministry of Education expectations of Boards of Education regarding financial governance and accountability
- Toolkit for Boards of Education – Financial Health and Other Questions
- Toolkit for Boards of Education – Accumulated Operating Surplus
 - Appendices:
 - I. BC Taxpayer Accountability Principles
 - II. Categorization of Internally Restricted Accumulated Operating Surplus by School District
 - III. SY2015-16 Accumulated Operating Surplus Percentage Compared to Expenditures and Funded FTE
- Toolkit for Boards of Education – Audit Committees



Dave Byng
Deputy Minister of Education

Expectations of Boards of Education – *Financial Governance & Accountability*

Executive Summary

With recent auditor reviews and special advisor reports recommending strengthening the financial accountability framework of school districts, the Ministry of Education has developed guidance materials in partnership with the Financial Health Working Group. This Group includes membership from the Ministry, BC School Trustees Association (BCSTA), BC School Superintendents Association (BCSSA), BC Association of School Business Officials (BCASBO), Office of the Auditor General, and Office of the Comptroller General of BC.

Together, we are building on an already solid base of financial accountability practices exhibited by the K-12 Public Education Sector. This work supports leadership development in the sector, and the Framework for Enhancing Student Learning.

Key elements detailed within the Financial Governance and Accountability documents and toolkits relate to budget monitoring, accumulated surplus policy, and audit committees.

These financial governance and accountability documents support boards of education in the work they do as governors of our education sector. For example, having reserve policies that reflect your district's education priorities.

Expectations

The Financial Governance and Accountability documents and toolkits are intended to be supplemented with the sharing of good practices and collaboration amongst school districts. Examples of areas that could benefit from the sharing of good practices include assessing a school district's risk profile and mitigation strategies, a framework

for developing a strategic plan, and a framework for evaluating the skills and abilities of trustees and/or establishing an employee performance evaluation framework.

School districts are currently at various stages of developing policies and strengthening their financial accountability framework. It is expected that all school districts will discuss and develop a policy on:

- Budget Monitoring and Reporting; and
- Surplus Policy

Development of the policies may be conducted during the 2017-18 school year and can be used to guide the 2017-18 budget process. While early adoption of the related policies is encouraged, the target date for boards to implement the policies is June 30, 2018 so that they are in place for the 2018-19 school year.

School districts should review the descriptions in the subsequent pages and related Toolkits and determine how best to address the following in their district:

- Capacity Building for School Board Trustees and Superintendents
- Taxpayer Accountability Principles
- Financial Statement Discussion and Analysis
- Incorporate Strategic Planning and Risk Assessment into budget decisions

By June 30, 2018, each Board of Education should have in place an Audit Committee and policy guidance for the committee, including Internal Audit processes, and a written plan on how the school district will address the above expectations beginning in the 2018-19 school year.

These expectations reflect recommendations made recently by Special Advisors appointed by the Minister of Education. At a future date, the wording may be amended to reflect other recommendations from the Auditor General and Ministry of Finance. How the school district implements these and future recommendations and guidance is at the discretion of the Board of Education and reflects appropriate latitude to implement based on each school district's unique circumstances, risk profile, and strategic priorities.

Budget Monitoring & Reporting

(Development of policies during the 2017/18 school year, with policy approved by the Board no later than June 30, 2018)

All school districts must provide the Board of Education (or committee of the board) with, at minimum, quarterly financial reports which indicate forecasted results compared with actual budget, and provide an accompanying discussion and analysis, as necessary, to fully communicate financial performance and key risks. Quarterly results and projections to June 30th should be provided as at September 30, and December 31 of each year. This will allow the Board to monitor the district's financial position throughout the year on an ongoing basis and the expected year-end position.

For significant capital projects, status reports should be provided that set out progress on

spending relative to budget, achievement of key milestones and risks related to delivering the project on-time, on-budget and against identified project specifications. In addition, on a quarterly basis, district financial staff should update the Board on local and annual capital reserves.

Good Practices for Budget Systems and Processes:

BUDGET ASSUMPTIONS

All plans, assumptions, implementation plans and risks should be fully-disclosed with the Board of Education trustees before they are asked to approve budget documents. These plans, assumptions, and related risks should:

- be disclosed in the budget documents
- take into account the economic environment of the school district
- focus on planned changes from the previous school year, and
- be realistic and consistent with the school district's goals and vision, as outlined in a strategic plan

At a minimum, these disclosures should include:

- key budget assumptions, such as student enrolments, grant rate increases, salary increases, and inflation rates
- financial and business risks, such as increases in interest rates and increases in fuel prices

- specific strategies explaining how the budget supports the school district's strategic plan/direction

In its presentation, management should walk the Board of Education through the supporting materials, budget highlights, budget assumptions, implementation strategies and financial and business risks so that all trustees understand the complete picture before they are asked to approve the budget.

BUDGET UPDATES

Budget update materials should be prepared, at minimum, quarterly and provided to school board trustees in a timely manner. The updates should include a comparison to the original budget and forecasts to the end of the school year in the following areas:

- revenues
- expenses
- accumulated operating surplus or deficit
- full-time equivalents (FTEs) for staff
- eligible funded students

The updates should also include an explanation of significant variances (i.e. variances greater than 5%).

The budget updates should be formally received by the board, and management should review the changes with trustees to make sure they are aware of the

current situation and the impact of the changes on the fiscal plan.

BUDGETARY CONTROLS

An effective budgetary process includes analysis of what happens when a plan is put into practice and what the organization does or does not do to correct for any variations from the plan.

Budgetary controls should include:

- clearly defining managerial responsibilities
- implementing a plan of action for individual budget sites
- taking responsibility for adhering to the budget
- monitoring performance against the budget
- taking corrective action if results differ significantly from the budget
- permitting significant departures from the budget only after approval by the board
- investigating unexplained variances from the budget

INTERIM REPORTING

Management should produce interim financial reports (in September, December, and March) that include a projection to the end of the school year and an explanation of significant variances between the budget and the projected totals to the end of the school year. Specifically, the interim report

should include all significant revenues and expenses, and changes to:

- unexpended capital allocations
- expended capital allocations
- investments in capital assets
- unspent capital balances
- accumulated operating surplus/deficit

These reports should be presented in a timely manner to the Board of Education for review.

For additional guidance, refer to the *Toolkit: Financial Health & Other Questions*

Surplus Policy

(Development of policies during the 2017/18 school year, with policy approved by the Board no later than June 30, 2018)

All Boards of Education should prepare and approve an operating surplus reserve policy that guides the accumulation, reporting and spending of the funds. The policy should guide:

- inter-fund transfers, and ensure that stakeholders are aware of the policy and understand what it means
- general guidelines as to how much (i.e. percentage or dollar amount) could be transferred to other funds
- how much might be allocated from current year's resources to be spent in a future fiscal year
- annual planning and reporting of the expected surplus/deficit for the year and the application of the Surplus Policy for that fiscal year.

The purpose of restricted surpluses must be clearly documented and used as intended.

The threshold target for the Accumulated Surplus should be based on Total (versus net) Operating Accumulated Surplus. Surplus balances promote flexibility to absorb future year one-time costs, unforeseen expenditures, or reduced revenue due to declining enrolment.

For additional guidance, refer to the *Toolkit: Accumulated Operating Surplus*

Capacity Building for School Board Trustees & Superintendents

(Implementation by June 30, 2018)

The partner associations should work together to provide access to financial training on a regular basis. School districts should ensure that superintendents and trustees have access to financial training on a regular basis. Training should be provided, at minimum, in the following areas:

- governance – understanding roles and responsibilities of key stakeholders, and how provincial legislation and board policies impact school district operations
- financial literacy – understanding the education funding system, risk assessment, financial terms and language, components of financial statements and how they relate to one another, and what questions to ask superintendents and senior administration in order to obtain relevant and useful information

- financial monitoring – understanding how to verify information received from superintendents and senior administration, the internal control process, and how audit committees and internal auditors can benefit the operational efficiency of the school district.

Specifically, financial literacy training should include:

- the financial oversight responsibility of the board of education and management
- how financial statements are prepared and analyzed
- statements of financial position, operations, changes in net financial assets, and cash flows – how they are different and why they are all important
- the importance of notes to the financial statements
- how budgeting complements and supports financial reporting
- interim reporting against budget
- variance and comparative analysis
- good practices for a strong internal control system, including the use of audit committees and internal auditors
- how to ask clarifying questions of management and external auditors

For additional guidance, refer to the *Toolkit: Financial Health & Other Questions*

Taxpayer Accountability Principles

(Implementation by June 30, 2018)

The BC Government's *Taxpayer Accountability Principles* (TAP) are intended to apply to the broader public sector, which includes school districts. All Trustees, superintendents and senior administrators should receive training on the expectations of TAP and the expectations established by TAP should be incorporated into the school district's Code of Conduct.

Strengthening Board of Education financial literacy should be underpinned by the *Taxpayer Accountability Principles*.

Audit Committee & Internal Audit

(Implementation by June 30, 2018)

All school districts should formally assess the merits of establishing an Audit Committee. Terms of reference for this Committee should include oversight of audit and financial reporting, including review and approval of quarterly and annual financial statements, transfer of monies between funds, risk management and internal controls. Terms of reference for this Committee should require that it meet on at least a quarterly basis. The Committee should be comprised of a minimum of three individuals, at least one of whom is a financial expert. Provision should be made for members of this Committee to include non-voting individuals other than elected Trustees to provide advice and help ensure the presence of necessary financial expertise.

For additional guidance, refer to the
Toolkit: Audit Committees

Good Practices for Implementing Audit Committees and Internal Audit in School Districts:

AUDIT COMMITTEE

Boards of Education should appoint an audit committee, responsible for monitoring and reviewing the risk, control, and governance processes that have been established in board policies, to assist them in their financial oversight responsibilities.

Audit Committee members:

- should include members of the board, though these members should not represent a quorum
- should understand the organization's environment and accountability structure
- should be financially literate
- should have the ability to ask the right financial questions and follow up with clarifying questions

Staff support to Audit Committee:

- the Secretary-Treasurer can be on the committee as a non-voting participant, to provide staff support
- corporate secretary support should be provided to the committee for any recommendations to the Board of Education

External expert support to Audit Committee:

- the committee may include external expert support, such as individuals with an accounting designation or other relevant expertise the Audit Committee requires
- the external expert is a non-voting participant who provides additional technical assistance to the committee as an objective advisor with expertise in financial matters or other relevant expertise

In camera time at Audit Committee meetings:

- audit committee members should have in camera time without staff present
- in camera time should be at the beginning and end of each meeting
 - at the beginning of each meeting so that Trustees can raise any issues they want to ensure are addressed by the auditors, or other invited expert
 - at the end of each meeting to ask questions directly to the auditors, or other invited expert, and to hear of any concerns the auditors may have

INTERNAL AUDIT PROCESS

School districts should have an internal audit function (if the school district's size and complexity warrant one) to assess

and report on the adequacy of the internal controls. The internal audit function, where appropriate, should be responsible for examining:

- business strategies
- budgeting and accounting systems
- internal control and operational systems
- compliance with policies, procedures, and legislation
- economical and efficient use of resources
- the effectiveness of operations

The Ministry will work with school districts to assist with implementation of audit committees and an internal audit

function. For example, the sharing of internal audit resources amongst several school districts.

The internal auditor would have a direct reporting relationship to the Audit Committee.

The school district's Audit Committee meets on a regular basis with internal audit to discuss relevant matters and review reports from the internal audit function, and will consider recommendations to the board of education for policy or procedural changes for the school district.

Financial Statement Discussion & Analysis

(Implementation by June 30, 2018)

Financial Statement Discussion and Analysis, or FSD&A, as a concept, is in a developmental stage for school districts in British Columbia. Most districts may already be doing components of a formal FSD&A. All school districts should consider implementing FSD&A reporting to further strengthen financial governance and accountability.

FSD&A templates reflecting good practices will be prepared and shared with all school districts.

The *Budget Transparency and Accountability Act of the Province of British Columbia* directs school districts to follow Public Sector Accounting Standards (PSAS) excluding the *PS4200* series, and *Treasury Board Restricted Contribution Regulation 198/2011*, issued in November 2011. Boards of Education prepare audited financial statements in compliance with these requirements. These financial statements alone do not provide stakeholders with all of the information necessary to assess the school district's financial performance.

The following guidance has been modified for school districts based on material originally presented by the Auditor General of British Columbia in their report – *Understanding Canadian Public Sector Financial Statements* (June 2014).

The document *Toolkit: Financial Health & Other Questions* present common questions a reader should keep in mind when reviewing a set of financial statements. However, fully answering many of these questions requires additional information from a school district's management.

A common method used to disclose such information to readers is to supplement the audited financial statements with a *financial statement discussion and analysis* (FSD&A) from management. This supplementary financial reporting gives the entity's management a means of explaining the financial statement results to all readers in a consistent manner. The FSD&A attached to the financial statements is unaudited, however the auditor does ensure that commentary within the FSD&A is consistent with the audited financial statements.

Guidance for Preparing a Financial Statement Discussion and Analysis

As part of its mandate, the Public Sector Accounting Board (PSAB) developed a statement of recommended practice to assist public sector entities with the development of FSD&A reporting. The statement of recommended practice provides a general framework for determining the most relevant information to report. A high level summary of the guidance is provided in Exhibit 1. This exhibit should assist government, board members and other stakeholders with understanding what management should be reporting to readers when explaining the financial statements.

The statement of recommended practice provides management with more detailed guidance for specific financial statement elements.

Exhibit 1: Summary of SORP 1: Financial statement discussion and analysis recommended practice

Financial report components

- the entity's financial report should include an FSD&A along with the audited financial statements. The FSD&A should be cross-referenced to the audited financial statements.
- the entity should include a statement acknowledging its responsibility for preparing the FSD&A.

Qualitative characteristics

The FSD&A is meant to enhance readers' understanding of the entity's financial position and changes in financial position. To do this, this report must have the following qualitative characteristics:

- information must be presented in a way that is understandable to a general audience;
- information presented must be relevant for decision-making or assessing accountability;
- information presented must be consistent with the financial results contained in the audited financial statements; and
- the current and historical information presented throughout the report must be prepared on the same basis to enable comparability.

Key components of a FSD&A

The FSD&A should provide the following supplementary reporting to enhance readers' understanding of the financial statements:

- a summary of the significant events affecting the financial statements;
- analysis that explains the reasons for significant variances between planned and current year actual results;
- analysis that explains the reasons for significant variances between current and prior year results;
- analysis of significant trends (multi-year analysis) for specific financial statement elements; and
- information on known significant risks to, and uncertainties associated with, the entity's financial position and changes to financial position, along with a discussion of the entity's approach to managing the identified risks.

Strategic Planning

(Implementation by June 30, 2018)

All school districts should undertake a strategic planning process that culminates in the development of a specific vision and a long-term (i.e. three to five years) strategic plan. Management should have responsibility for developing the plan under the direction of the Board. Specifically, the Trustees should:

- provide direction to management on their long-term vision and expected direction for the school district;
- review and provide feedback on the draft plan prepared by management;
- formally approve the plan; and
- communicate the strategic plan to all stakeholders.

The final plan should include measurement criteria to help assess progress in its implementation, and management should be charged with providing regular status updates to the Board on activities taken to address the plan.

Finally, the renewed vision and strategic plan should be a guiding force in the development of the annual budget,

including ongoing monitoring of financial performance.

It is expected that the financial framework of the school district supports achievement of enhancing student learning. Clear linkages should exist between the budget and school district student achievement goals. This will necessitate development of key performance metrics outlined in the Board of Education's strategic plan.

Risk Assessment / Management

(Implementation by June 30, 2018)

All school districts should complete a comprehensive risk assessment, including an understanding of risk mitigation activities in place. Over a longer period of time (i.e. three to five years), more advanced Enterprise Risk Management (ERM) practices should be adopted.

Risk assessment and the managing of risks presents opportunities for shared service delivery.



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