

Report on The Vancouver School Board (School District 39)

*Prepared for the Minister of Education
June 2010*



Office of the Comptroller General
Ministry of Finance



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**Report on The Vancouver School Board (School
District 39)**

Ministry of Education

**Office of the Comptroller General
Ministry of Finance**

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Honourable Margaret MacDiarmid
Minister of Education
Province of British Columbia
Room 347, Parliament Buildings
Victoria BC V8V 1X4

Dear Madam:

I am honoured to present my office's 2010 Review of the Vancouver School Board (School District 39).



Cheryl Wenezenki-Yolland, CMA, FCMA
Comptroller General

Victoria BC
June 2010

Enclosure

Table of Contents

Section	Page No.
Abbreviations.....	i
Executive Summary.....	1
Introduction.....	8
Purpose	9
Scope and Approach	10
1.0 Governance.....	11
1.1 Board Accountabilities	12
1.2 The VSB Committee Structure.....	15
1.2.1 The Need for an Audit Committee.....	18
1.2.2 The Advocacy Committee	19
1.3 Tone at the Top.....	20
2.0 Board Management Capacity	21
2.1 Board Involvement in Operations Rather Than Oversight.....	22
2.2 Board Orientation, Training and Self-assessment.....	23
3.0 Strategic Planning.....	27
4.0 The Budget.....	30
4.1 Budget Development Process.....	31
4.2 Considerations in Managing the 2010/11 Budget	36
4.3 2010/11 Proposed Preliminary Budget	38
5.0 2009/10 Year-end Forecast	43
5.1 Year-end Forecasting Process.....	43
5.2 Basis for Preparing the 2009/10 Forecast.....	45
5.3 2009/10 Forecast and Adjustments	48
5.4 Impact on 2010/11 Budget Shortfall.....	50
6.0 Administrative Expenditures and Opportunities for Administrative Efficiencies and Economies of Scale	51
7.0 Short and Long-Term Capital Planning and Utilization	55
7.1 Short Term Planning - Capital.....	56
7.2 Long Range Planning - Capital	56
7.3 Opportunities.....	57

7.3.1	Integrated Planning.....	57
7.3.2	Heritage Schools.....	57
7.3.3	Community Partnerships.....	58
7.3.4	School Year and Service Delivery Model	58
7.3.5	School Closures.....	59
8.0	Revenue Opportunities.....	61
	Summary of Recommendations:	73
	Appendix 1 – Summary of Additional Revenue Generation and Cost Savings Opportunities	79
	Appendix 2 – VSB Committee Structure	80
	Appendix 3 - Financial Position	81
	Appendix 3 (cont.) - Accumulated Operating Surplus.....	83
	Appendix 4 – Comparison of Preliminary Budgets, Amended Budgets and Actual Results 2007/08 to 2009/10	84
	Appendix 5 – Extract from VSB’s 2010/11 Preliminary Budget Proposals..	85
	Appendix 6 – Summary of Jurisdictional Review	86

Abbreviations

AGM	Annual General Meeting
BCSTA	BC School Trustees Association
Board	Board of Trustees
DMT	District Management Team
LCR	Local Capital Reserve
MOU	Memorandum of Understanding
NCLD	Neighbourhood Centre for Learning and Development
PA	Project Approval
PDR	Project Development Review
PIR	Project Identification Review
Pre-K	Pre-Kindergarten
the <i>Act</i>	<i>School Act</i>
the ministry	The Ministry of Education
VSb	Vancouver School Board
VTF	Vancouver Teachers' Federation

Executive Summary

The Minister of Education requested the Comptroller General, as special advisor to the Vancouver School District, to undertake this review to assist the board in meeting its obligations under the *School Act*, ensure education dollars are maximized and savings are redirected for the benefit of students. More specifically the review was to consider the board's budget development process, financial forecasts and position, administrative expenditures, short and long-term planning including the use of capital to the benefit of students, the board's management capacity and the use of benchmarks in assessing efficiency and identify opportunities for economies.

In conducting our review, we recognize the Vancouver School Board is part of the larger provincial education system. As such, where we noted opportunities and challenges that were systemic in nature, recommendations were appropriately directed to the Ministry of Education. Specifically excluded from our scope of work was the structure of the provincial funding model for education.

The Vancouver School Board's present financial and operational situation is the result of choices made by the current and previous Boards of Trustees. The culture and governance practices of the Vancouver School Board, and ultimately the decisions or non-decisions, are reflective of these choices: a number of the decisions have been less than optimal from a financial sustainability perspective. Opportunities to reduce costs, generate revenues and maximize the available resources to the benefit of students have been missed. To assist the Vancouver School Board and the Minister of Education we have identified a number of potential opportunities for cost savings and revenue generation. We have also made a number of recommendations that are intended to strengthen the Vancouver School Board's practices and approaches to support its success into the future.

Governance

The Vancouver School Board is governed by nine trustees, elected every three years. The board of education is responsible for the improvement of student achievement in the school district and has a duty to govern the district and schools in accordance with specified powers of the *School Act* in a fiscally responsible and cost effective manner.

The Ministry of Education describes the governance approach as a "co-governance model" between the Ministry of Education and school districts.

The current Vancouver School Board of Trustees' governance practices and philosophies are not fully consistent with the requirements of the *Act* to improve student achievement in a fiscally responsible and cost effective manner. The Board of Trustees does not take a balanced approach to its accountabilities, focusing on advocacy at the expense of stewardship. The majority of the Vancouver School Board trustees see their role relative to the Ministry of Education as one primarily related to advocacy, rather than as "co-governors" of the education system. The effect of this extensive advocacy activity deflects the accountability of the trustees from the overall financial stewardship of the Vancouver School Board.

The Vancouver School Board of Trustees must improve its governance practices by: meeting all of its duties and responsibilities as defined by the *School Act*, balancing the need for stakeholder input with operational requirements and efficient decision making, clarifying the accountability of the Board of Trustees and addressing the perceived lack of trust, confidence and respect between the Board of Trustees and the district management, as well as addressing the perceived lack of integrity of the Board of Trustees.

Our review has highlighted some potential opportunities to strengthen the overall governance model for public education in British Columbia, in terms of governance and accountabilities. There is also an opportunity to provide clarity for both the public and the boards of education to ensure accountabilities and responsibilities are understood and opportunities to deflect or avoid accountability are minimized.

In this regard, the Ministry of Education should review the current co-governance model to ensure it is meeting the needs of the public education system.

The Vancouver School Board had many policies and procedures to promote good conduct and high ethical standards. Notwithstanding these policies and procedures, consistent concerns about the ethical and organizational culture at the Vancouver School Board were strongly evident from our review. These concerns focused on the lack of impartiality of a number of Trustees and a lack of trust, confidence and respect between the Vancouver School Board Trustees and the District Management Team.

Whether real or perceived the board needs to take immediate steps to fully address these concerns regarding the Trustees and ensure a respectful and effective working relationship is established between the Trustees and the District Management Team.

Board Capacity

Boards, whether elected or appointed, are accountable for the success of the organizations they govern. In order to be successful the Board of Trustees must collectively possess the skills and abilities, or acquire the necessary support, to understand the context within which the organization operates, the issues the organization faces, the regulatory requirements, and the management and financial information they receive.

The current Board of Trustees has not demonstrated they have the management capacity to effectively govern the Vancouver School Board or fulfill all of their accountabilities and duties of the *Act*. This is evidenced by the quality of board discussions, their focus on short term decisions at the expense of long term sustainability, the lack of strategic and long term plans, and an unbalanced focus on advocacy versus financial stewardship, delaying decisions that would see the effective use of existing or available resources.

We also identified a potential conflict of interest on the part of a trustee between their business interests and their obligations as a board member, in contravention of the *School Act*. The Minister of Education and the Board of Trustees should take steps to determine whether the conflict of interest has been realized.

We were surprised to find that some trustees choose not to avail themselves of training opportunities. The Board of Trustees working with the District Management Team could improve its knowledge and capacity. Consistent with best practice the Board of Trustees should undertake an assessment of their skills and knowledge to identify the skill sets they bring to the board and determine which skills they need to supplement through training and outside expertise. To be effective all trustees should be required to take the extensive amount of orientation and training already available to them.

Further, the Board of Trustees should meet its obligations in terms of planning and the provision of strategic direction and appropriate oversight to district management and significantly reduce its level of involvement in the day-to-day operations of the school district.

The Ministry of Education could assist the district in meeting its fiscal responsibility through a revised achievement contract that links services and resources to outcomes.

The Ministry of Education could also support Board effectiveness by making trustee participation in orientation and training mandatory.

Strategic Planning

The Vancouver School Board does not have a long term strategic plan which would link Vancouver School Board's educational and business priorities and align its actions and allocation of funding with those priorities.

A key component to effectively guiding an organization is a strategic plan that takes into account the educational objectives and long term direction for student learning and matches this with the resources available, both staffing, and facilities. A well constructed strategic plan including an assessment of the risks and identification of mitigating strategies, would have allowed the district to more easily adjust to changes and would consider service priorities, human resource needs, technology and finally the identification of priorities and the allocation of financial resources.

Recent progress has been made in regard to long-term facilities planning. The Vancouver School Board is currently developing a district-wide 60 school facilities audit which is targeted for completion in October of this year. This audit is a more comprehensive approach that considers seismic, other physical conditions, educational fit, heritage, and capacity versus enrolment issues. However, in the absence of a long term strategic plan that clearly establishes the future direction and priority for the educational services in the Vancouver School Board there is still a risk that this facilities plan will not be completely consistent with the final objectives and priorities.

A strategic plan would enable the Vancouver School Board to identify the activities that are of lesser priority and which could be reduced or eliminated. Having a long term strategy would support the Board of Trustees in making different decisions.

The Ministry of Education could provide stronger leadership by preparing a long term education plan for the province, articulating the vision for education, and its objectives and strategies. Given that schools are a significant investment in public resources, the education plan should cover a period of 5 to 10 years. This would provide support to districts in their long term strategic planning and provide increased stability to districts and transparency to the public.

Financial Position

The Vancouver School Board's balance sheet is healthy, it is in a strong cash position, and its current accumulated surplus is substantial; in fact it is the largest of all the Metro Vancouver school districts. It does not have significant debt and has no tangible long term liabilities. Vancouver School Board's financial position is in line with the other Metro Vancouver school districts we reviewed.

In some respects, Vancouver School Board's cash position is at odds with its operating budget challenges. Through the choices the Board of Trustees have made, the annual operating costs exceed revenues; it is now facing a structural deficit. Eventually, the Vancouver School Board's accumulated surplus will be depleted unless they can bring their income and expenses into alignment.

Budget

The Vancouver School Board processes for preparing and compiling its budget involve appropriate analysis and review, and are consistent with provincial legislation and guidelines. The Vancouver School Board has not taken a strategic approach to managing its operating budget.

Despite management advice to support longer term decision making, some of the Board of Trustees' choices have created significant budget pressures. Collectively, these choices have created a structural deficit, which added about \$8 million in annual budget pressures in 2009/10.

The Vancouver School Board's strategies for managing its 2010/11 operating budget are reactive rather than strategic. The Vancouver School Board should rethink the way it operates with a view to meeting its educational priorities in a financially sustainable manner in light of an overall strategic plan. Specific areas for consideration include:

- Linking the educational goals and direction with the operations of the district in one plan driven by clear strategic direction.
- Conducting the Program/Services review that was proposed for the 2010/11 budget process. Reviewing programs and services in conjunction with the budget will support the alignment of service and program priorities with available funding.
- Revisiting the decisions over school closures and consolidation. As Vancouver School Board's biggest costs are staff and facilities, they have to be a key part of any move to financial sustainability.
- Eliminating the provision of non-core services such as junior kindergarten and providing transportation to students not meeting criteria for transportation. Although these services address community needs, they are not funded and their delivery diverts funding away from core educational services.
- Generating more revenue by increasing rental rates. The Vancouver School Board has kept rental rates artificially low to support community and educational groups. The lost revenue through this subsidy would otherwise be available to support the Vancouver School Board's educational services. Rate increases will need to be gradual to manage the effect on users.
- Working with its unions and associations to identify areas where concessions can be negotiated to support greater flexibility and more effective use of staff resources for the benefit of students.

The Vancouver School Board has taken a number of steps to achieve administrative efficiencies and economies of scale, including entering into common purchasing and shared services arrangements. There are further opportunities for the Vancouver School Board to achieve efficiencies and economies of scale through consolidation of district procurement and banking, improved technology and pursuit of additional shared service arrangements. We encourage the Vancouver School Board to be an early adopter of the Ministry of Education led Integrated Business Administration System.

Appendix 1 summarizes the additional revenue and cost reduction opportunities we have identified.

Transparency and
Accountability

The Vancouver School Board's posting of its budget information and financial performance is not transparent. The pessimistic preliminary budget is posted prominently on the website, but the amended budget and the year-end financial statements are more difficult to locate. The Board of Trustees should provide better contextual and supporting information in their budget documents. The omission of context leads to misunderstanding and confusion.

The Vancouver School Board should post all financial information together and provide adequate context and support to ensure greater transparency.

Further, the Board of Trustees should receive quarterly financial reports from the District Management Team. This would assist them in fulfilling their oversight and stewardship role.

In the context of providing transparency across school districts we recommend the Ministry of Education provide some clear guidelines and expectations in regard to public reporting, we also recommend the Ministry of Education establish a standard definition and categorization of all revenues and costs. During our review we found our ability to conduct meaningful comparisons across the districts was limited due to the lack of consistency in how information was collected.

Forecast

Unlike a regular business or government, British Columbia school districts have the ability to draw on prior year's surpluses to supplement the current year's operations.

As a result, the Vancouver School Board's forecast to the year-end assumes all the budgeted expenditures will be spent. We requested the district to provide us with a forecast that was based on actual projected expenditures rather than assuming they will spend their entire budget. Consequently, based on this work and adjusting for the results of a recent Distributed Learning audit, we would project an accumulated surplus of \$6.81 million versus the \$3.35 million forecast by the Vancouver School Board.

2010/11 Base
Budget

The additional surplus could then be made available to address the 2010/11 budget shortfall. One caveat is that until the audited financial statements are completed in September 2010 the actual amount of unused budgets will not be known with certainty. While other factors such as the recalculation of actual enrolment usually result in increased revenue, we have not included this in our calculation to be conservative.

We also noted examples of overly cautious budgeting. Combining this with the adjustments to the accumulated surplus the potential revised Base Budget could be an \$11.79 million shortfall instead of the original Base Budget projection of a \$16.32 million shortfall.

Conclusion

The Vancouver School Board's current financial circumstances could have been avoided had the board appropriately managed the resources it had in delivering its educational program. This situation can be resolved through appropriate long term planning and effective decision making. We have also provided a number of recommendations to ensure the Board of Trustees have the capacity and the governance practices in place to effectively meet its requirements under the *School Act*.

We would like to thank the Board of Trustees, management, and staff at the Vancouver School Board, the Ministry of Education, and other stakeholders who participated in and contributed to this review for their co-operation and assistance.



Cheryl Wenezenki-Yolland, CMA, FCMA
Comptroller General
Ministry of Finance

Introduction

The Vancouver School Board (VSB), School District 39, is a large, urban and multicultural school district. It is among the most diverse public school systems in Canada, operating 109 schools with enrolment of approximately 56,000 ministry-funded full time equivalent students from kindergarten to Grade 12. VSB has the second highest student enrolment in British Columbia; Surrey school district has the highest, at approximately 67,000.

VSB's goal is to serve the needs and tap the potential of each of its students so that they may achieve their unique potential. Its mission is to enable students to reach their intellectual, social, aesthetic and physical potential in challenging and stimulating settings which reflect the worth of each individual and promote mutual respect, cooperation and social responsibility.

VSB's 2009/10 Amended Annual Budget reported total revenue of approximately \$483.3 million with total staffing of approximately 5,650.

VSB is governed by nine trustees, elected every three years. The current Board of Trustees (Board) was elected in November 2008 and four of its members are serving their first term while five others have served previously.

According to the *School Act (the Act)*, a Board of Education is responsible for the improvement of student achievement in the school district. It also has a duty to govern the district and schools in accordance with specified powers in a fiscally responsible and cost effective manner. Some responsibilities of the Board include:

- ensuring that schools provide students with opportunities for a quality education;
- setting educational policies that reflect the aspirations of the community and that are consistent with provincial guidelines;
- providing leadership and encouragement to schools and community;
- cooperating with communities and social service agencies in the delivery of non-educational support services; and
- focusing on implementation of educational programs, school finance and facilities, and accountability to parents, taxpayers, the community and to the Province.

The Board has established five standing committees for discussion of school district matters. The Board considers reports provided by the committees and votes on recommendations that are forwarded for approval.

The Ministry of Education (the ministry) provides leadership and funding to the K–12 education system through governance, legislation, policy, and standards and overseeing its application.

The ministry works closely with boards of education and independent school authorities, professional education organizations, community literacy organizations, First Nations representatives, provincial ministries and agencies, the private sector, and public libraries. Roles and responsibilities are set out under the *Act*, and other associated Acts and regulations.

The ministry, together with its partners, has three main goals:

- ensuring British Columbia's young children benefit from high-quality early learning experiences;
- extending the success of British Columbia's K–12 system by responding to the unique needs of all students; and
- helping all learners improve their lives through life-long learning and literacy opportunities.

Under Section 171.1 of the *Act*, the Comptroller General has been appointed as Special Advisor to the Board of Education of School District 39 to examine VSB's financial performance. The appointment was for a term ending June 3, 2010. The Special Advisor submitted the final report to the Minister of Education June 3, 2010.

Purpose

Specifically, the Special Advisor had been tasked with reviewing and evaluating and, as appropriate, making recommendations respecting the following:

1. The Board's budget development process.
2. Comparators and/or benchmarks used to assess efficiency.
3. Providing a 2009/10 year-end forecast. Assessing the financial position of the district and its proposed strategy to manage its 2010/11 budget.
4. Identifying opportunities to achieve administrative efficiencies and economies of scale to ensure education dollars are maximized.
5. Reviewing existing administrative expenditures and identify opportunities to redirect savings to benefit students.
6. Reviewing board's management capacity.

7. Assessing the board's short and long-term planning including appropriate utilization of capital and related resources for the benefit of students.
8. Other matters arising from the inspection and evaluation as required by the minister.

Scope and Approach

In conducting the review, the Special Advisor and her team accessed records and information including, but not limited to, the Board's budget development process, benchmarks, financial forecasts and position, management capacity, administrative expenditures, capital plans, and other records as required. The engagement also included interviews with the ministry management and staff, School District 39 management and staff, School Trustees, and other key stakeholders deemed appropriate. Finally, the engagement included consultation with other Canadian jurisdictions.

1.0 Governance

The VSB Board of Trustees' governance practices and philosophies have contributed significantly to the financial and operational challenges now faced by the Vancouver School Board.

The Board as a whole does not take a balanced approach in considering all of its accountabilities, focusing on some roles (e.g. advocacy) to the detriment of others (e.g. stewardship). While we noted the *School Act* regulations require the board to act in a fiscally responsible and cost effective manner, Trustees lacked a consistent perspective of what their accountabilities were. The ministry could provide greater clarity by more clearly defining the governance model for education.

The standing committee structure and the practice of consensus decision making slow down decision making and dilute the accountability of the board.

There is a perceived lack of trust, confidence and respect between the Board and its management team; and the perception of a lack of impartiality on the part of a number of the Trustees impacts the ability of the organization to function in an effective manner.

Also noted in section 4.1 of our report, VSB needs to improve the transparency of its publicly posted budget and financial information to provide greater transparency to its key stakeholders on the financial position of the district.

Definition of Governance

Governance refers to the structures and processes by which an organization is directed, controlled and held to account. In the VSB the responsibility for these structures and processes is that of the Board of Trustees.

A good example of the principles of good governance are contained in the Office of the Auditor General of British Columbia's report on "Public Sector Governance: a Guide to the Principles of Good Practice" which states:

Five key principles that underpin good governance, accountability, leadership, integrity, stewardship and transparency:

"Accountability" is the process whereby public sector organizations and the individuals within them take responsibility for their decisions.

Strong **leadership** sets the tone at the top and is absolutely critical if an entire organization is to embrace good governance. Public sector leaders must not only demonstrate ethical behavior themselves but require ethical behavior of all staff.

Acting with **integrity** means being ethical and not misusing information or resources. An organization with integrity maintains high standards of propriety and probity in the stewardship of public funds.

Stewardship is the act of looking after something on behalf of others to protect or improve its sustainability. This applies to ensuring financial sustainability and the efficient and effective management of resources.

Transparency is achieved when an organization's actions are open to scrutiny. It means all stakeholders, the public and employees have access to full, accurate and clear information about the organizations decisions."

1.1 Board Accountabilities

The VSB Board of Trustees has a stewardship responsibility to ensure the effective and efficient use of approximately \$480 million of public resources for the delivery of education services. We assessed the Board against good governance practices for public sector organizations. Our key source for these good practices was the guidance provided by the Government of British Columbia's Crown Agency Resource Office and Board Resourcing and Development Office¹, which is targeted specifically to public sector organizations in British Columbia, including school districts.

Clarity of, and agreement on roles, responsibilities and accountabilities is the basis of a sound governance model. It helps to guard against the inefficiencies associated with overlap and duplication of efforts, as well as against the ability of the key players in the governance model to deflect or ignore accountability as a result of ambiguities about who is accountable for what. To be effective, however, roles, responsibilities and accountabilities need to be agreed to and accepted by all key players in the governance model.

There is considerable evidence within the VSB of a lack of agreement on the accountabilities of School Trustees.

- VSB Trustees have different opinions on where they see their accountabilities. Some see themselves as accountable to the public. Some see themselves as accountable to the Province while others mention accountability to stakeholders or partners, such as teachers, parents and students.

¹ See, for example, the Crown Agency Resource Office's series of *Good Practices Checklists* and the Board Resourcing and Development Office's *Best Practice Guidelines – Governance and Disclosure Guidelines for Governing Boards of British Columbia Public Sector Organizations*.

- Similarly, some VSB Trustees have a fairly narrow interpretation of what they are accountable for, namely delivery of the platform on which they were elected. Others have a broader interpretation that includes provision of educational programs/services that meet the needs of the citizens of Vancouver. Still others mention the need to operate within the parameters or constraints set by the province through *the Act* and related regulations and policies.
- Generally absent from the majority Board view is recognition of their stewardship role in respect of the VSB, in terms of their fiduciary responsibility to act in the best interests of the organization, including its financial and operational sustainability. All Boards, elected or appointed, have this stewardship role in respect of the organization over which they govern.

The majority of the current VSB Trustees see their role relative to the Province as one primarily related to advocacy (representing and advocating for local needs and/or the views of stakeholders), rather than as “co-governors” of the education system along with the province. The effect of this extensive advocacy activity is to create confusion amongst the public as to whether it is the province or VSB that is responsible for the financial difficulties faced by the district. It also illustrates the room provided for the deflection of accountability when there is ambiguity in respect of what the key players are accountable for, and to whom they are accountable.

While *the Act* provides extensive information on the specific responsibilities of Boards of Trustees, containing more than 70 sections that describe numerous powers and duties of a Board, it does not provide a clear description of the overall governance model for public education in British Columbia, from a broad, principles-based perspective. A clear overall description would provide guidance where the *Act* does not provide specific requirements. The regulations supporting the *Act* are somewhat clearer, providing the following comparative duties of, responsibilities of and areas of focus for school boards and the ministry:

Table 1: School Board and Ministry Duties, Responsibilities and Focus

School Boards	Ministry of Education
Duty to govern districts and their schools in accordance with specified powers in a fiscally responsible and cost effective manner .	Duty to set policies for the British Columbia public school system in accordance with specified duties and powers.
Responsibilities: <ul style="list-style-type: none"> - Ensure that schools provide students with opportunities for a quality education - Set education policies.... consistent with provincial guidelines - Provide leadership and encouragement to schools and community - Cooperate with communities and social service agencies in the delivery of non-educational support services 	Corresponding responsibility to ensure that <ul style="list-style-type: none"> - The education system provides students with opportunities for a quality education in a cost-effective manner - To set standards and overall directions for the education system - Provide leadership and encouragement to all educational agencies - Cooperate with provincial agencies in the delivery of non-educational support services to students
To focus on: <ul style="list-style-type: none"> - Implementation of ... educational programs - School finance and facilities - Student access and achievement - Teaching performance - Accountability to parents, taxpayers, the community and to the province. 	To focus on: <ul style="list-style-type: none"> - Finance and facilities - Program direction, development and implementation - Student access and achievement - Teaching performance - System evaluation and public accountability

It is not possible to ensure that each party in the governance model is being appropriately accountable when there is a lack of consensus on what these accountabilities are, and/or when the accountabilities are open to interpretation. A significant risk for the education system as a whole is that key accountabilities will be deflected or ignored, a risk that is currently being realized in respect of the VSB.

Recommendations:

- (1) **That the VSB Trustees fully exercise their duties and responsibilities as defined by the *School Act* and balance their actions with the full range of its accountabilities and governance responsibilities.**
- (2) **That the ministry review the current co-governance model to ensure it is meeting the needs of the public education system.**

1.2 The VSB Committee Structure

The Board of Trustees has a philosophy of consensus approach to decision making. This approach increases the time to make decisions and dilutes board member accountability. While consultation with key stakeholders is a good practice, it needs to be balanced against operational requirements and efficient decision making.

VSB has five standing committees “to facilitate comprehensive discussion of school district matters”: Management and Coordinating; Planning and Facilities; Education and Student Services; Personnel and Staff Services; and, Finance and Legal (Appendix 2). Because these committees serve primarily to receive input from stakeholders, membership includes stakeholders as well as Trustees; each committee also has a member of the executive responsible for it. Some collective agreements include clauses associated with Committee representation; for example, the representation of the Vancouver Teachers’ Federation (VTF) on the five standing committees is included in their collective agreement with the VSB (VTF/Vancouver Board of Education Agreement 2006-2011).

This Committee structure has been in place for about 20 years in VSB, and its original intent was to get input from stakeholders on key decisions in an effective and efficient way, before a decision is made at the Board level.

A recent study by the Auditor General of British Columbia, *Public Participation: Principles and Best Practices for British Columbia* pointed out that “Effective public participation is becoming an important consideration for government as the public and stakeholder groups increasingly expect to be involved in government decision-making.” However, in doing so, the report also concluded that some pitfalls may occur through the process of public and stakeholder consultation including, “decisions or projects are delayed because the “political climate” is not conducive to making any decision. With most decisions government makes, there are both winners and losers.”

The level of consultation undertaken by the current Board is far more extensive than would be expected in the context of a standing committee structure designed to obtain stakeholder input, and significantly contributes to the slow process of decision-making.

- The Board does not restrict the issues that go to Committee to significant items, which increases the volume of the issues considered by Committee and (ultimately) the Board, as well as the frequency of the meetings.
- Issues that previously would be addressed by VSB staff often go through the Committee structure, no matter how small or operational in nature, thereby not allowing the opportunity for resolution of operational issues at the appropriate staff level.

- The VSB Board of Trustees subjects capital plans, educational facilities reviews, capacity studies and school closure and consolidation reports to a significant degree of stakeholder consultation and to broader social, educational and political considerations through a combination of public meetings, Planning and Facilities Committee meetings and board meetings. While we acknowledge the sensitivity of considerations around the use of schools, we believe, in the case of VSB, this consultation has been excessive. As a result, all the time and resources invested in detailed, data-driven reports is subject to a range of different interests which may not be the same as, or may compete with, broader district interests. This process can upset the timing of capital spending decisions and disrupt recommendations for school closures and consolidation

There is further concern with Committee structure as it relates to the relative roles of the voting (Trustee) and non-voting (stakeholder) members. While Committees members are provided on an annual basis with information from staff on the relative roles and responsibilities of the voting and non-voting members, there is little distinction between or separation of roles in practice. This is because the decision-making process in Committees is “by consensus”, meaning that stakeholder groups can (and do) have considerable influence on the proceedings and decisions of the Committees diluting the accountability of the Trustees.

Furthermore, the consultation process is not restricted to the Committee structure; additional community consultations are often undertaken at the behest of the Board or Committees (e.g. the extensive consultation process undertaken for the budget). There are also nine advisory committees which provide an additional vehicle for stakeholder input and consultation.

It is not unusual for large districts to have committees to assist with the volume of work, and typical standing committees would include education/student services, budget/finance and grounds/facilities. Most committees will consult on contentious issues, but having stakeholders as members of all committees is not a typical practice.

Other membership issues in respect of VSB standing committees include the following:

- Good practice prescribes that the Board members on a Committee of the Board not constitute a majority of the Board as a whole; this is because any decision of a Committee comprising a majority of Board members is effectively a decision of the Board, meaning the Board’s role becomes redundant. Two of the VSB standing committees do not follow this good practice, namely:
 - the Management and Coordinating Committee, has five Trustee members, which constitutes a majority of the nine Trustees; and

- the Education and Student Services, which has all nine Trustees as members.

Finally, the incremental costs of VSB's Board and Committee structure are significant. For the period of January 2009 through April 2010, staff costs for attending and preparing for Board and Committee meetings are estimated at between \$800,000 and \$1 million, with some staff attending as many as 103 meetings, a commitment of up to 206 hours. Additional costs for Board and Standing Committees over the same period include catering (\$31,000) and paper (\$4,000).

Rationalizing the committee structure with an objective to returning to a more common committee structure and purpose would provide for appropriate stakeholder consultation, a more efficient and effective decision making process by the Board, re-establish appropriate accountabilities for the board, management and stakeholders and would also result in a more effective use of district resources.

Recommendations:

- (3) **That the Board restore the Committee structure to its original intent, as a vehicle for receiving stakeholder input in an effective and efficient manner by:**
- **Keeping strict control of the process for setting the agenda to encourage a focus on key/significant issues; and**
 - **Changing the operations of the Committees to ensure that the participation of stakeholder representatives is restricted to the provision of input only, with no involvement in the decision-making process.**
- (4) **That the Board reduce the number of Trustees on the Management and Coordinating Committee and on the Personnel and Staff Services Committee to four or fewer.**
- (5) **That the Board change its philosophy on consensus decision making to better balance the need for input from stakeholders with the operational requirements of the organization, including efficient decision-making and use of staff resources. This might include reducing the number of advisory committees, or restricting stakeholder representation to selected (rather than all) standing committees.**
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1.2.1 The Need for an Audit Committee

It is a good governance practice for large complex organizations to have an Audit Committee reporting to the Board that provides oversight and makes recommendations on financial and risk management and other strategic issues.

Based on our jurisdictional review we noted Ontario and Nova Scotia require school boards to have audit committees. Given the financial challenges that the VSB faces, the limited attention afforded by the Board to its fiduciary responsibilities, and the general resistance to a risk-based or performance-based approach to decision-making, an Audit Committee could be a welcomed addition to the VSB standing committee structure.

At the same time, because the mandate of the Audit Committee would not be to gather stakeholder input, and because of the nature of the work undertaken by Audit Committees requires a considerable level of financial literacy and operational management expertise, the structure of this standing committee must not mirror that of the existing committees, particularly in respect of the inclusion of stakeholder representation. However, it is common practice for a Board to appoint one or more external members to an Audit Committee to ensure the Board has access to sufficient professional and objective expertise in such areas as accounting, financial oversight, internal controls and risk management. Professional accounting associations and/or British Columbia's Board Resourcing and Development Office could assist the Board in identifying suitable external candidates for the Committee.

Recommendations:

- (6) That the Board establish an Audit Committee to provide oversight and make recommendations in respect of the Board's fiduciary responsibilities to the organization.**
 - (7) That Audit Committee membership be restricted to no more than four Trustees (in the majority), supplemented by one or two external financial professionals to ensure the Committee has sufficient knowledge, skills, experience and objectivity to effectively carry out the functions of the Committee. Stakeholder representation should not be included in the Audit Committee.**
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1.2.2 The Advocacy Committee

As stated in section 1.0, the Board of Trustees does not take a balanced approach to its accountabilities focusing on advocacy at the expense of stewardship.

The Advocacy Committee is a sub-committee of the Management and Coordinating Committee. Comprised of Trustees and stakeholders, this Committee, which was reinstated at the request of Trustees in January 2009², “identifies and responds to issues of advocacy”. A key focus of the Committee is advocating for additional funding from the provincial government, and encouraging the public and stakeholders to do the same. Like all VSB committees and sub-committees, the Advisory Committee has district staff assigned to it for support (\$17,000 staff time to prepare for and attend Committee meetings. We were unable to estimate the additional staff time spent on advocacy).

In addition to providing staff support to the Advocacy Committee, the VSB Communications Department spends an increasing amount of its time on advocacy work, at the expense of other communications work of the school district. For example, since July 2009, 26 of the 31 pieces of outgoing correspondence produced by the Communications Department was related to advocacy work, most in the form of letters to the provincial government on the issue of adequacy of funding. The Communications Department was also tasked with developing and maintaining the “Trustee Advocacy” section of the VSB website which includes, among other items, a letter that individuals can sign and send to the Premier, Minister and/or their local MLA in respect of the level of funding provided to the VSB.

The appropriateness of using district resources, much of it from the Province, to fund advocacy work such as this is highly questionable. While elected officials are free to choose to engage in political activity using their own resources or the resources of the political party they represent, the use of organizational resources for political purposes is generally considered to be inappropriate in public sector organizations regardless of the level of government.

Recommendation:

- (8) That the Board focus on fulfilling its stewardship responsibilities related to the provision of educational services and limit the amount of staff resources used to support the Advocacy Committee and related advocacy activities to those activities that are demonstrably associated with the business of the school district, as opposed to the political activities of Trustees.**

² The VSB had an Advocacy Committee during the 2002-2005 period, but the Committee was inactive between 2005-2008.

1.3 Tone at the Top

There is no question the culture, the tone at the top and the ability for an organization to be effective is clearly established by the leadership of that organization. The Board sets the tone for an organization through its operating style, ethical values, assignment of roles and responsibilities, its actions and finally in its response to wrongdoing.

While there is room for improvement, we found the VSB has many of the policies and procedures in place to promote good conduct and high ethical standards:

- *The Act* contains provisions related to conflict of interest, which primarily relate to pecuniary interests of trustees. The VSB policy manual requires adherence to the law, and cautions Trustees to be alert to situations that have the appearance of a conflict of interest; however, procedures for declaration of conflicts are not defined.
- Trustees are required to take the School Trustee Oath of Office, which includes clauses related to conflict of interest, abiding by *the Act* in respect of trustee qualification and election requirements, and not allowing any private interest to influence their conduct in public matters.
- The VSB has established School Board Member ethics, which includes the expectation that members “adhere to the highest ethical standards in their dealing with the Board, members of the school community, and citizens of the district, and to carry out their duties in a fair and impartial matter”. In addition, a bylaw exists around requirements to maintain the confidentiality of privileged information.

Notwithstanding these policies and procedures, consistent concerns about the ethical and organizational culture at VSB were strongly evident from our review. In particular, based on our work, including interviews with VSB Trustees, staff and stakeholders, we observed the following two key issues:

- A concern about the lack of impartiality on the part of a number of the Trustees, which manifests itself primarily through preference shown for the views, perspectives and proposals of select stakeholders, relative to those of other stakeholders and of the (Vancouver) population at large; and
- A lack of trust, confidence and respect between the VSB Board and VSB management, which is evident from the extent to which the Board is involved in day-to-day operations, and its strong emphasis on consultation and the reliance on the views of stakeholders over the professional advice of staff.

Whether real or perceived, absence of trust, confidence and respect between a Board and its management team puts the ability of an organization to function in an effective manner at considerable risk. Similarly, concerns about the integrity of a Board, whether real or perceived, present significant reputational risks for an organization if they are not addressed.

Recommendations:

- (9) That the Board take immediate steps to fully address concerns about the lack of impartiality of several of the Trustees.**
 - (10) That outside expertise be employed to work with VSB Board and management to implement the governance improvements recommended here (including improvements to the Committee structure and better balance across the full range of Board accountabilities) along with any additional steps required to facilitate an effective working relationship between Trustees and district management.**
 - (11) That the ministry consider developing an avenue by which staff, trustees and stakeholders, can have their concerns reviewed and addressed.**
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2.0 Board Management Capacity

The Board of Trustees has not demonstrated they have the management capacity to effectively govern the Vancouver School Board. This is evidenced by; their focus on short term decisions at the expense of long term sustainability, lack of strategic and long term plans, and an unbalanced focus on asking for more funds versus working to effectively use resources.

While training is made available and board members do request specific training not all board members attend. Also, as the current board has not assessed the skill sets they bring to the board they cannot determine which skills they need to supplement through training and outside expertise. There is also lack of clarity between the roles of the board and the management team that reports to them.

As noted previously there is a dilution of accountability in the decision making process and a perceived lack of trust and integrity.

Boards, whether elected or appointed, are accountable for the success of the organizations they govern. In order to be successful collectively the Board must possess the skills and abilities or acquire the necessary support to: understand the context within which the organization operates, the issues the organization faces, the regulatory requirements and the management and financial information they receive.

2.1 Board Involvement in Operations Rather Than Oversight

Good governance prescribes that a Board's role is to provide oversight for the operations of the organization, while leaving day-to-day operations to the organization's management and staff. In practice, this means the Board provides overall strategic direction to management, approves the strategies, policies and plans required to fulfill the organization's mandate, monitors the implementation of these strategies, policies and plans, and approves reports on the results of these strategies, policies and plans. Development of, implementation of and reporting on the strategies, policies and plans is the purview of management and staff.

In contrast to good governance practice, the VSB Board of Trustees is actively involved in the day-to-day operations of the school district, generally at the expense of meeting its obligations in respect of overall strategic direction, oversight and planning.

Operational issues are regularly required to go through the Committee and Board process. The Chair of the Board readily acknowledges that the current Board chooses to be more hands on than many other Boards of Trustees in the province. This slows down the decision-making process, and results in a focus on process over progress and/or performance. An example of this result is in the area of school closures: the focus of the current Board's work in this area in the 18 months since they were elected, and the only outcome to date, is the development of a policy on the process for consultation on and implementation of school closures.

This concept of there being considerable discretion in how much the Board is involved in day-to-day operations is, to some extent, supported by the *Act* itself; many of the specific duties of Boards outlined in *the Act* are operational in nature and could reasonably be interpreted as encouraging active involvement of the Board in operations. Neither *the Act* nor related regulations clearly delineate between Board and staff roles and responsibilities, although this is not unusual; such delineation is more typically made in policy rather than legislation.

However, while the highly prescriptive *Act* might increase the risk of a Board being actively involved in operations, there are Boards in the province (including previous VSB Boards) which choose to draw the line between their roles and responsibilities and those of management in accordance with good practice.

A Board that is overly involved in day-to-day operations is generally not able to provide effective oversight, and has less time to fulfill its obligations in respect of planning and the provision of strategic direction, which is what we observed to be the current situation with the VSB. There is a clear lack of medium-to-long-term planning in the district, and an overall resistance to any risk-based or performance-based approach to decision-making. What planning is in place (e.g. facilities plans, the achievement contract required by the ministry) does not integrate services and outcomes (educational programming, student achievement) with inputs/resources (finance, facilities, information management and technology, human resources and labour relations). This absence of planning means decision-making on the part of the Board is generally reactive rather than proactive, and promotes a focus on short-term consequences, several examples of which are provided in later sections of this report.

The resistance to a risk-based or performance-based approach to decision-making, as well as to the lack of integration of education services with resources, is in part facilitated by the strict separation of “the services component” of education from “the business component” of education by all key parties. The ministry could better promote fiscal responsibility in school districts, as well as a focus on integrated planning, by expanding the achievement contract requirements to include performance planning and reporting that links the services and resources required to produce the desired outcomes in respect of student achievement.

Recommendations:

(12) That the Board meet its obligations in terms of planning and the provision of strategic direction and appropriate oversight to district management and significantly reduce its level of involvement in the day-to-day operations of the school district.

(13) That the ministry promote fiscal responsibility and integrated planning in school districts through a revised achievement contract approach that links services and resources to outcomes.

2.2 Board Orientation, Training and Self-assessment

Whether elected or appointed, it is good practice for Board members to ensure they have access to and attend orientations and on-going educational/professional development opportunities to support them in carrying out their duties.

VSB Trustees are provided with a comprehensive orientation program by VSB staff, supplemented by a significant number of regular workshops and training also provided by VSB staff, as well as by the British Columbia School Trustees Association (BCSTA). Each Trustee also receives an allowance of \$5,000 over their three-year term for training and development, some of which is used to defray the costs of attending the BCSTA annual general meetings.

Good practice in corporate governance also prescribes that there be a process in place to ensure members of the Board have the competencies (skills and experience) required to fulfill the roles and responsibilities of the Board.

- Where Boards are appointed, this is most readily achieved through the development of Board member selection criteria or a “competency matrix” that identifies the skills, experience and qualifications required on the Board as a whole, and the appointment of Board members on the basis of that criteria.
- Where Boards are elected, the selection of members on the basis of a competency matrix is not possible. However, as with appointed Boards, the competencies required to fulfill the roles and responsibilities of an elected Board can be identified. The resulting competency matrix can be used to identify “competency gaps” in the Board as a whole which, in turn, can be filled through such means as the provision of Board member training and access for Board members to outside expertise.

While VSB Trustees can and do request workshop topics and/or information on specific areas from staff either as part of or outside of the orientation process, a “competency matrix” per se has not been established for Trustees, nor is there a formal process in place for identifying or filling specific “competency gaps” through training or access to outside expertise.

In addition, Trustees have a choice of whether or not to attend any or all of the orientation or workshop sessions, and some choose not to participate.

Good practice in corporate governance also prescribes that a Board have in place a process for assessing itself, its committees, and its individual members on a regular (typically annual) basis.

- Individual board member and board assessments are typically done by the board against its charter or equivalent document, which describes the board’s roles and responsibilities and the governance process used to fulfill board duties, while committee assessment is done by the board against the individual committee terms of reference. Boards that do not have this process in place already usually obtain external assistance in conducting the assessment.

- In the context of an elected board, the performance of individual Board members is ultimately judged on the basis of whether or not they are re-elected, should they run for re-election. However, annual self-assessment would allow an elected board to more frequently and directly measure its effectiveness, and contribute to transparency and stronger accountability through the public release of the results of the assessments.

There is no self-assessment framework in place to assist the VSB Board of Trustees in measuring and publicly reporting on its own effectiveness against *the Act*, against Board roles and responsibilities, against VSB plans or priorities and/or against good governance processes.

Adoption of good corporate governance practices could assist VSB Trustees in ensuring they are receiving the support they need to fulfill their roles as Board members and to publicly demonstrate their effectiveness as a Board.

Recommendations:

- (14) That the VSB Board of Trustees, with the support of VSB staff, develop a competency-based approach to Trustee orientation and training, including a formal process for: identifying the competencies required; identifying any “competency gaps” that need to be filled; and filling these gaps through training or access to outside expertise.**
 - (15) That the VSB Board of Trustees implement a self-assessment framework to annually measure its effectiveness. Consideration should be given to sharing the results of this assessment publicly.**
 - (16) That the ministry make Trustee participation in orientation and training mandatory to support Board of Trustee effectiveness.**
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2.3 Potential Conflict of Interest

In the course of our review we identified a potential conflict of interest on the part of a trustee between their business interests and their obligations as a board member. A trustee, who may have a financial interest in a matter before a committee of which the trustee was a member, may not have been in compliance with the provisions of the *School Act*.

Trustees swear an oath of office that includes that they will conduct themselves in accordance with the *School Act* including the requirements relating to disclosure of pecuniary (financial) and indirect pecuniary interest in a matter.

In addition, section 58 of the *Act* sets out the duties of a trustee in relation to a conflict of interest, including that where a trustee has any pecuniary (financial) interest in any matter and is present at a meeting of the board at which the matter is considered, the trustee must not take part in the discussion of or vote on any question in respect of the matter.

Under section 63, a trustee can be disqualified, on application to the British Columbia Supreme Court by an elector, if found to be in contravention of the *Act* as it relates to conflicts of interest. Disclosure of a conflict of interest is the trustees' responsibility.

We are unaware of any disclosure of business interests of board members publically within the district. The lack of disclosure reduces transparency.

Both the Board and Minister have general duties of oversight and it is recommended that the Minister work with the board to review its administrative practices to ensure that trustees are fully aware of their duties with respect to conflicts of interest, the consequences of failure to comply with those duties, and that board meetings are conducted in a manner that facilitates and supports trustees in the proper exercise of their responsibilities with respect to conflicts of interest under the *School Act*.

The Minister also has a general oversight role with respect to the operation of Boards and their compliance with the *Act*. Under section 172, if they were of the view that the board was in substantial non-performance with the *Act* or of board duties, they have the power to appoint an Official Trustee.

School Act
Weakness

In addition, there is a weakness as the *School Act* is currently set out. While the board does have a general oversight role with respect to the conduct of its business and trustees do have a responsibility to ensure that they comply with the *Act*, the remedy process set out in sections 62 and 63 of the *Act* are very specific that the right to apply to the court for a determination of the question of whether the trustee has contravened section 58 and has failed to abide by the rules with respect to conflicts of interest, resides with the elector, a qualified voter, as defined in sections 40 and 41 of the *Act*.

The *Act* does not prescribe a power with the board or the Minister, beyond their general oversight roles, with respect to addressing conflicts matters. Boards do have an oversight role with respect to administration of board business and it is within the scope of their duties to ensure that proper processes are in place to ensure that conflicts are addressed appropriately at board meetings.

Recommendations:

- (17) That the Minister work with the Board to review its administrative practices to ensure that trustees are fully aware of their duties with respect to conflicts of interest, the consequences of failure to comply with those duties, and that board meetings are conducted in a manner that facilitates and supports trustees in the proper exercise of their responsibilities with respect to conflicts of interest under the *School Act*.**
- (18) That the Minister and Board take steps to determine whether the potential for trustee conflict of interest has been realized.**
- (19) That the ministry review Conflict of Interest provisions set out in the *School Act* and strengthen the provisions for remedy.**
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3.0 Strategic Planning

The VSB does not have a long term strategic plan which would link VSB's educational and business priorities and align its actions and allocation of funding with those priorities. In our interviews, both the VSB Board and the District Management Team (DMT) have indicated they are hesitant to plan beyond one year because of uncertainty over provincial policy and funding. There is a view that long-term planning is not possible. Other districts have been able to do this. We would have expected VSB to have prepared a longer term plan.

Recent progress has been made on the facilities side. VSB is currently developing a district-wide 60 school audit which is targeted for completion in October of this year. This audit is a more comprehensive approach that considers seismic, other physical conditions, educational fit, heritage, and capacity versus enrolment issues. In particular, the audit will create a closer alignment between facilities planning and educational program planning to ensure space planning is both maximized and supports current educational models such as 21st Century Learning. However, outside the context of an overall strategic plan, there is a risk of poor long term decisions.

Also, while the VSB web site does provide the following education principles:

- Success for *all* students;
- Safe, sustainable, healthy learning environment;
- Inclusive and equitable system for all learners;
- Attend to organizational, instructional and leadership;
- Capacities; and
- Ensure succession, efficacy and collaboration.

These principles have not been incorporated into a long range strategic plan with objectives and strategies to achieve those objectives.

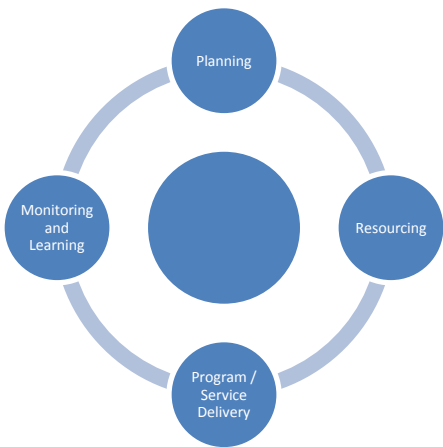
Planning, both short and long term is fundamental to an organization’s success. Through planning activities, an organization’s vision, principles, goals, objectives and strategies to achieve them can be defined and agreed upon. A series of performance measures that clearly demonstrate progress and results can then be developed. The significant risks, both within and outside the organization, that impact on those goals and objectives can be identified and assessed. A set of actions, both short and long range, to achieve those goals and objectives can then be developed, and resources, including capital and people, can be allocated to ensure those actions can be carried out efficiently and effectively.

A well crafted strategic plan allows an organization to adjust resources and strategies to still meet its goals in light of changes that occur both within and outside of the organization.

Regular review of performance and adjustment for changes allows the organization to keep on track to meet its goals. The process occurs at a macro level over an annual cycle; however, as the year progresses changes in resources and requirements require an organization to go through the planning cycle several times on key issues.

The planning cycle is often illustrated as follows:

Table 2: The Planning Cycle



The lack of a long term vision and plan has led to short-term decisions that have not served VSB well; for example the Board’s involvement in day to day operations rather than oversight, the ongoing budget challenges, and the ineffective use of capital assets (especially schools). Although long-term planning is challenging in times of uncertainty it becomes more important to do.

A good plan incorporates a risk assessment identifying those issues that may be a problem in the future, as well as, what the organization would do to mitigate that risk. These strategies provide the means to still achieve the objectives and guide the organization through the change while maintaining the focus on the overall objectives, thus avoiding conflicting short term priorities. For example, we found an instance where an approved school seismic project also ended up on the recommended closure list.

A strategic plan would enable VSB to identify the activities that are of lesser priority and which could be reduced or eliminated. Long term cost containment decisions that would have a lasting effect could then be made rather than the short-term ad hoc decisions that have been common.

The ministry could support districts in their long term strategic planning by preparing a long term education plan for the Province, articulating the vision for education, objectives and strategies. Given that schools are a significant investment in resources, the longer term focus in the strategic plan the more stability would be provided to districts. For example, the recent Throne Speech reference to pre-kindergarten for three and four year olds have created uncertainty in capacity requirements and space planning.

Recommendations:

(20) That VSB develop a strategic plan that establishes direction and priorities. The plan should:

- **form the basis for long term educational and business decisions;**
- **include appropriate performance measures; and**
- **be kept current through periodic reviews and refreshes.**

(21) That VSB support its strategic plan through a long range financial management plan to steer the district to financial stability.

(22) That the ministry should develop a long term strategic plan for education to facilitate better long term planning in the school districts.

4.0 The Budget

VSB has some significant budget challenges. Although VSB's processes for preparing and compiling its budget involve appropriate analysis and review, and are consistent with provincial legislation and guidelines, VSB has not taken a strategic approach to managing its operating budget; budget decisions have often been short term and ad hoc rather than providing long term solutions to budget challenges. Despite sound management advice to support longer term decision making, some of the Board's choices have created significant budget pressures; in particular the use of one-time funding to fund ongoing expenditures, the delivery of unfunded programs and the unfunded subsidy of community and educational groups through artificially low rental rates. Collectively, these choices added about \$8 million in annual budget pressures in 2009/10.

VSB's strategies for managing its 2010/11 operating budget, while less reliant on one-time only funding, are reactive rather than strategic. To address its budget challenges VSB needs to reassess the way it operates.

We also found that VSB needs to improve the transparency of its publicly available budget documents and financial information.

VSB's balance sheet is healthy. VSB is in a strong cash position and its accumulated operating surplus is substantial, although VSB anticipates drawing down much of its accumulated surplus to supplement its 2009/10 operating budget. VSB does not have significant debt and has no tangible long term liabilities (Appendix 3). VSB's financial position is in line with the other Metro Vancouver school districts we reviewed.

In some respects, VSB's cash position is at odds with its operating budget challenges. To use an analogy, it is like an individual whose lifestyle is such that their income is insufficient to meet household expenses but who has a substantial savings account. Eventually the individual's savings account will be depleted unless they can bring their income and household expenses into alignment.

Similarly, VSB's healthy financial position will inevitably erode if it does not successfully address its budget challenges.

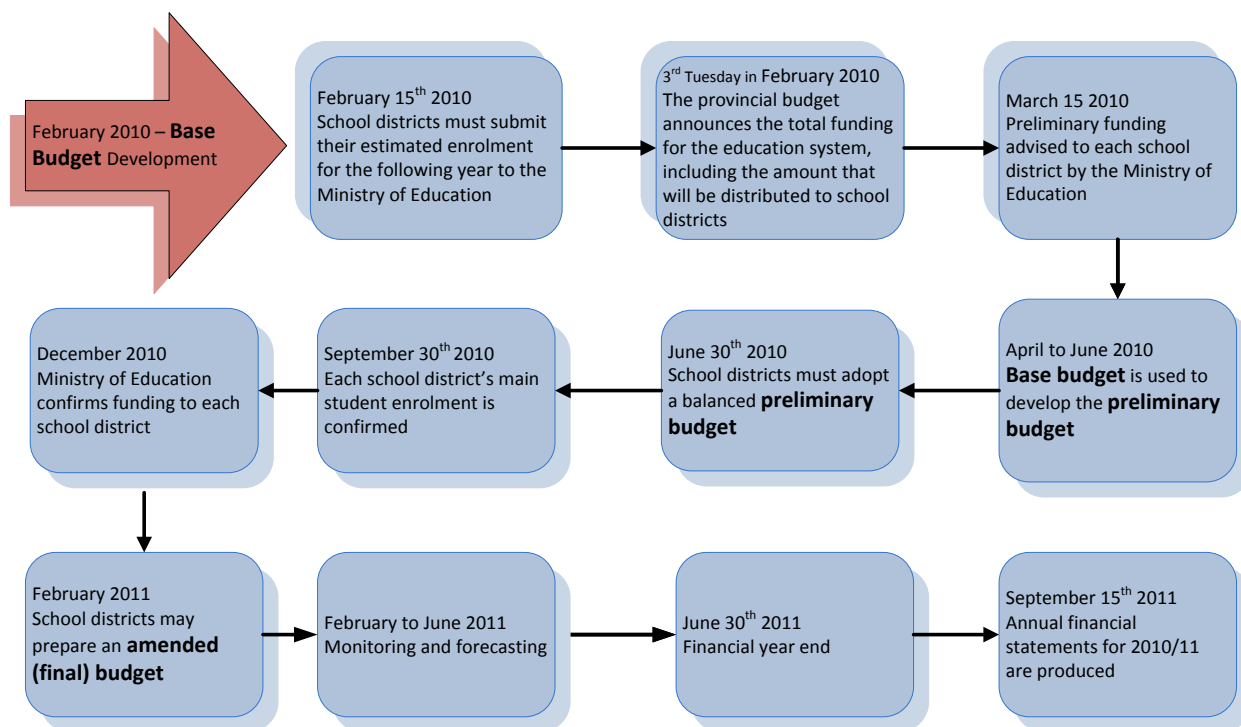
4.1 Budget Development Process

For public sector organizations the budget is one of the most critical accountability documents. When utilized and planned within the context of clear strategic priorities and objectives the budget relays the organization's commitments to the public in financial terms and clearly establishes the organization's operational and financial stewardship responsibilities.

The public accountability cycle is strengthened when the budget is followed annually by a public reporting of how the organization did against the planned budget and service objectives. This is typically achieved through the annual financial statements and/or an annual report that provides a comparison of actual financial and operational results against the budget and the plan. This would also include a discussion of any significant variations from the plan and the potential implications on a go forward basis. Transparency is also strengthened when the budget and actual results are reported on the same basis and when the information presents fairly (does not misrepresent or mislead), is timely, clear and easy to understand.

Table 3

School District Budgeting and Reporting Cycle



The VSB budget development begins with the preparation of a base budget; in essence this is the previous year's final budget adjusted for known changes (e.g. elimination of one-time funding and one-time costs, recognition of contractual obligations such as wage increases and changes to benefit rates). The VSB **base budget** is an incremental, formula based budget.

By February 15th of each year, the district must submit its estimated enrolment for the following year to the ministry. Enrolment information is critical because provincial funding is determined on the basis of enrolment. By March 15th of each year the ministry must advise each district of its available funding for the coming year.

Having estimated its enrolment and knowing the available government funding, VSB adjusts its base budget accordingly and starts to prepare its **Preliminary Budget**. If after making the adjustments the base budget shows a projected operating deficit, VSB will have some decisions to make over what changes are necessary to reach a balanced budget. VSB's 2010/11 base budget indicated a \$16.32 million shortfall.

The VSB has a large and diverse group of stakeholders. The process for building on the base budget and finalizing the Preliminary Budget involves significant consultation, through the VSB Board and its committees and through budget-specific public meetings. This consultation informs the Board in establishing its budget priorities. It is reasonable to expect a fair degree of public consultation in this process given the potential public impact; however, as discussed earlier in the report the consensus based approach undertaken in the VSB makes the Board's decision making more difficult, perhaps less optimal, tending toward short-term financial decisions versus financially sustainable decisions.

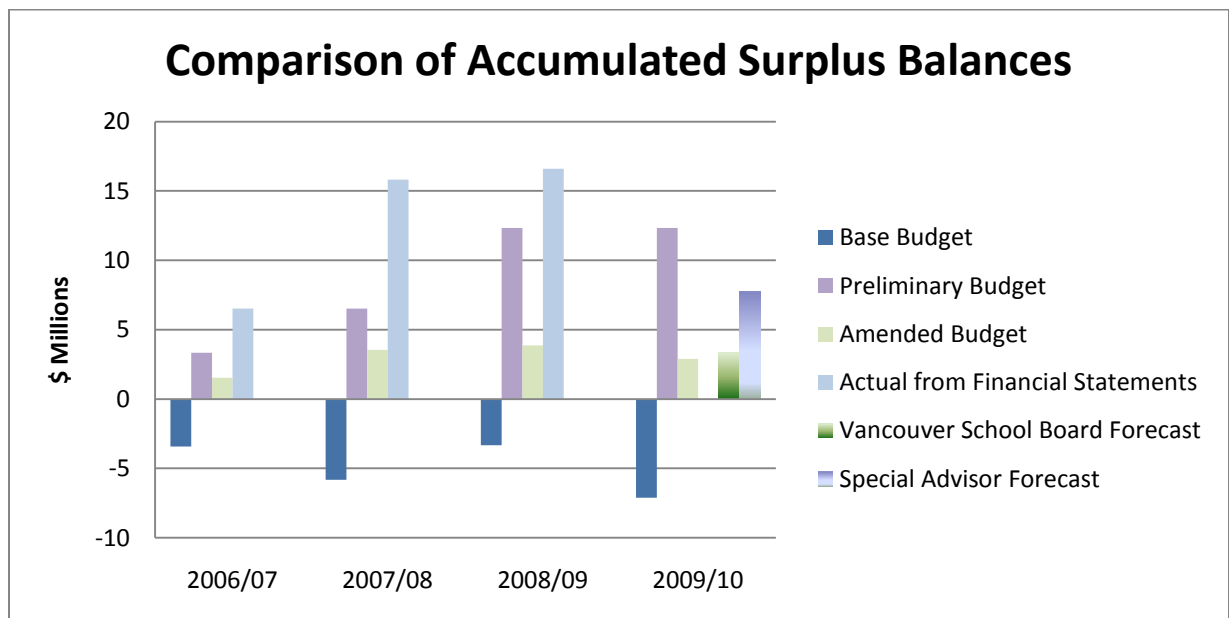
Finalization of the Preliminary Budget involves a significant amount of interaction between the Board and the DMT in working through potential options and their implications.

Under the *School Act* the Board must adopt a balanced Preliminary Budget by June 30th each year.

Student enrolment is confirmed by September 30th. Once enrolment is confirmed VSB has greater certainty as to its provincial funding. The ministry confirms its funding in December, based on the September enrolment. With enrolment and provincial funding established, VSB adjusts its Preliminary Budget and prepares its **Amended Budget** (sometimes referred to as the final budget).

The Preliminary Budget tends to be conservative due to the uncertainty of projected student enrolment and the related provincial funding. By being conservative, VSB reduces the risk of a significant revenue shortfall when student enrolment is confirmed. See Appendix 4 for a comparison of Preliminary Budgets, Amended Budgets and actual results for 2007/08, 2008/09 and 2009/10. However, in each of these years forecasted revenues in the amended budgets were higher than forecasted in the preliminary budgets and the actual results were even more positive than those projected in the base, preliminary and amended budgets. The improvement on the base budget ranged from six to nine million dollars in the three years examined.

The following graph illustrates projected and actual accumulated surpluses over time. The graph shows that actual results were consistently better than originally forecasted in the base budget.



Incremental Budgeting vs. Zero Based

The VSB budget is developed on an incremental basis from the prior year's budget adjusted for known changes. Meaning, the budgeting starts with the previous year's budget and adding to or subtracting from it according to anticipated needs or predetermined percentages from historical costs (current or past budgets). The previous year's budget serves as a baseline. This type of budgeting is usually steady in nature and characterized by gradual changes.

Although there is sufficient review and oversight to ensure the accuracy of the incremental budget, the credibility of the budget would be strengthened by periodically validating it. This could be achieved through a zero based process where division heads/managers would be required to justify all budgeted expenditures, not just changes in the budget from the previous year. The baseline is zero rather than last year's budget.

The risk with an incremental budget is that over time it can become a numeric exercise that drifts away from what the organization is actually doing.

We understand that VSB went through a modified version of a zero-based budgeting exercise in 2008 to validate its new chart of accounts and is planning a similar exercise after the June 30, 2010 year-end. Periodically undertaking a zero-based budget exercise (i.e. building the budget from the ground up) helps establish the reasonableness of the incremental budget and supports budget realignment where necessary.

Transparency and
Completeness of
Publicly Available
Information

The public documents released for the budget consultation are misleading (primarily the Revised 2010/11 Preliminary Budget Proposals) and have the opportunity to be clearer and more transparent. They focus exclusively on the incremental budget, the projected shortfall and proposed steps to remedy it. The more prominently posted public information presents a more pessimistic picture, while the amended budget and the audited financial statements are harder to find.

We noted that some other school districts' budget consultation documents, while advocating strongly on the impacts of reductions, do provide the overall context by providing the projected total revenues and expenditures. Although the VSB budget documents provide the total revenues and expenditures from the 2009/10 final budget, they do not provide the projected total revenues and expenditures for 2010/11. They do not provide an overview on what the district will and will not do on an overall basis. It is difficult for stakeholders and the public to form informed opinions without that context. The budget documents have a tone of advocacy documents (focused on the need for more funding) rather than purely consultation documents. The documents do not seem to propose a series of options – just a number of strategies in the context of incrementally eroding a shortfall in funding. The challenge with this approach is that the question of efficiency and effectiveness does not necessarily get addressed.

Similarly, Appendix C in VSB's Revised 2010/11 Preliminary Budget Proposal presents VSB's operating budget reductions and additions from 2002/03 to 2009/10 without the necessary context (Appendix 5). VSB's table implies an FTE reduction of 276.8 and budget reduction of \$51.10 million between the period 2001/02 and 2009/10. However, the Amended Budget figures for 2009/10 indicate FTE and budget increased by 19 and \$109.74 million respectively for the same period of time. See table below.

Table 4: Comparison of VSB's Appendix C in the 2010/11 Preliminary Budget Proposal to the 2009/10 Amended Budget

	Number of Teachers (full time equivalent)	Budget amount (\$ millions)
A) From VSB's Appendix C- 2001/02 Preliminary Budget	5627	373.61
B) From VSB's 2009/10 Amended Budget	5646	483.34
Difference in FTE and budget between 2001/02 and 2009/10- increase/(decrease)	19	109.74
Difference between 2001/02 and 2009/10 reported on VSB's Appendix C- increase/(decrease)	(276.8)	(51.10)

Also missing from Appendix C is enrolment, which declined from 58,509 in 2002/03 to 55,224 in 2009/10, a decrease of 3,285. The omission of this context could lead to misunderstandings or at least confusion in the public. In considering transparency and ease of access to information we also noted that the VSB posts its Preliminary Budget prominently on its website. However, the Amended Budget is posted within the Committee V meeting notes, making it more difficult for the public to be aware of or locate this information. The more prominently publicly posted budget information, therefore, tends to present a more pessimistic picture rather than what eventually transpires.

A better practice followed by some school districts is to post their preliminary and amended budgets and their audited financial statements all on the same section of their website. This presents a more complete and balanced picture while also providing for greater transparency and accountability for the final results of the year.

Recommendations:

- (23) That the VSB improve its budget process by periodically undertaking a zero-based budgeting exercise to validate its incremental budget.
- (24) That VSB improve the balance and transparency of its budget consultation documents by:
- including appropriate context, projected revenues, expenditures and projected operating (deficit)/surplus;
 - ensuring information included is clear, complete; and
 - posting its amended budgets and audited financial statements in the same part of its website as the preliminary budgets.
-

4.2 Considerations in Managing the 2010/11 Budget

There are a number of factors that challenge VSB in managing its costs and in considering its decisions on how to deliver a balanced budget. Some of these challenges are inherent; others are exacerbated by the lack of strategic planning.

- Declining Enrolment: Like most school districts in British Columbia and across Canada, the VSB's overall student population is declining. From 2004/05 to 2009/10 VSB's enrolment declined from 57,367 to 55,224, or 3.7%.
- Special Needs Students: VSB has a relatively higher number of special needs students, which requires additional staff support and planning and affects class size.
- Aging Facilities: Many Vancouver schools are old (some of them are up to 100 years old). The maintenance costs for older schools are higher than for newer schools and custodian costs are higher because of the higher square footage.
- High Staff Costs: VSB has a higher salary level than the other four Metro Vancouver districts. VSB's average salary is \$2.5 thousand higher than the average for the other four districts, but \$6.7 thousand higher than Surrey. This appears to be skewed by Educational Assistants and "Other Professionals, both over \$10 thousand higher than Surrey (the ministry provides a salary differential in the funding formula).

- Complex Collective Agreements: The VSB has more collective agreements (19) than any other school district; there is a cost to operating under so many agreements. In addition, many of the agreements have clauses that restrict VSB's ability to pursue cost savings and efficiencies; for example:
 - Minimum staffing ratios;
 - No job losses due to contracting for services;
 - Guaranteed employment for specified employees hired before a specified date;
 - No job losses due to technological change; and
 - Work of a general nature that can only be done by a specified union.

The complexities around contracting for services and technological change are not unique to VSB. These clauses are an impediment to shared services arrangements between school districts. For example, shared services are more attractive to the host district than other participating districts because the host district has no resulting job losses. This is an area where a provincial solution might be needed.

- East-West Divide: The VSB website states that the Vancouver District is home to some of the most affluent and impoverished neighbourhoods in the country. This divide is largely along West-East lines. The Westside schools are viewed by many as more attractive than those on the Eastside; the Westside schools are at or close to capacity.

There is excess capacity in the Eastside schools but there are challenges in attracting additional students to those schools.

- Board Philosophy: The VSB Board has publicly stated its belief that public education should be needs based as opposed to operating within a defined budget and has advocated strongly in support of that view. As such, cost containment is not their first priority. When advocacy efforts have not resulted in additional funding, cost saving measures have tended to be short term rather than long term measures.

Strong Financial Position

While VSB has some significant challenges it also has some significant opportunities. The current financial position of the VSB is quite healthy:

- Strong Cash Position: At March 31, 2010 the VSB had \$98.8 million in cash and temporary investments and still projected a healthy balance of \$81.84 million at June 30, 2010.

- **Strong Liquidity:** In all years the liquidity ratios of the VSB were strong, clearly demonstrating the ability of the VSB to cover all current liabilities (See Appendix 3).
- **Low Debt and No Tangible Long Term Liabilities:** The VSB has no significant debt and no tangible long term Liabilities – providing for a healthy financial position. This is in line with other Metro Vancouver school districts we reviewed.
- **Capital Stock:** 2010 British Columbia Assessment Valuation including non-school sites, Education Centre and VSB Workshop is \$3.03 billion.
- **Accumulated Surplus:** There was an accumulated surplus of \$16.59 million at June 30, 2009; this was the highest accumulated surplus of all Metro Vancouver school districts. Surrey had the next highest at \$11.15 million. In comparing the districts over a five year period Vancouver was the highest in three of the five years. The VSB has projected the accumulated operating surplus will reduce to approximately \$3 million by June 30, 2010.

4.3 2010/11 Proposed Preliminary Budget

The 2010/11 Preliminary Budget has not been approved by the Board yet and may change before June 30, 2010. The VSB has prepared a 2010/11 base budget that presented a \$16.32 million shortfall, approximately 3.4% of expenditures. The VSB 2010/11 Revised Preliminary Budget Proposal outlines a number of actions to address the projected \$16.32 million shortfall and balance the budget.

The 2010/11 preliminary budget proposal identifies a reduction of 161.73 staff FTEs out of a total of 5,633 FTEs, as a result of its proposed actions to address the shortfall. We were advised that in most years VSB has achieved its budget reductions that effect people through attrition rather than through actual job losses. For 2010/11, however, VSB advised us they expect that some, though not all, of the proposed reductions will involve actual layoffs.

Table 5: Summary of the 2010/11 Base Budget and Adjustments

	2009/10 Preliminary Budget	2009/10 Amended Budget	2010/11 Base Budget	Further Projected Adjustments	Unapproved Preliminary Budget
	\$ Millions	\$ Millions	\$ Millions	\$ Millions	\$ Millions
Revenue	477.38	483.34	481.60	(1.00)	480.60
Expenditures					
• Payroll	443.53	448.51	460.57	14.24	446.33
• Services and Supplies	39.89	48.11	40.26	3.08	37.18
Total Expenditures	483.42	496.62	500.83		483.51
Net Surplus (Deficit)	(6.04)	(13.27)	(19.23)		(2.91)
• Appropriation of Operating Funds	3.81	16.59	2.46		2.46
• Inter-fund Movement	2.23	(.42)	0.45		0.45
Grand Total Surplus (Deficit)	0	2.90	(16.32)	16.32	0

Our overall assessment is the 2010/11 proposed revenues and expenditures are reasonable compared to actual 2008/09 results and projections for 2009/10. We identified some areas where we considered the budget to be overly conservative and we also believe the way VSB accounts for the carryover of unused budgets overstates the proposed shortfall. These issues are discussed in section 5. Our proposed adjustments could reduce the projected shortfall from \$16.32 million to \$11.79 million before applying any mitigation strategies. We have also provided strategies to mitigate the current budget shortfall later in this section.

The reason for the significant projected shortfall is that prior years' budgets have relied on transfers from reserves and accumulated surplus but there are fewer reserves available to support the 2010/11 budget as the 2009/10 budget has drawn heavily on the accumulated surplus (\$13.27 million per the table above).

Structural Deficit

VSB has a structural deficit in that its ongoing annual revenues are not sufficient to meet its ongoing annual operating expenditures.

VSB is projecting funding shortfalls for 2010/11 (\$16.32 million), 2011/12 (\$7.32 million) and 2012/13 (\$5.65 million). If the 2010/11 projected shortfall is less than the \$16.32 million projected, the projected shortfalls for 2011/12 and 2012/13 may also be reduced.

The severity of this situation has arisen because of decisions made in previous years that addressed that year's immediate shortfall but did not fully address the ongoing effects. For the 2010/11 Preliminary Budget VSB has estimated that the ongoing impact of 2009/10 expenditures funded from one-time sources has resulted in \$7.29 million in budget pressures. The one-time sources of funding used to supplement the 2009/10 budget are as follows:

Table 6: Ongoing Impact of 2009/10 Expenditures Funded From One-Time Sources

	\$ Millions
2008/09 Appropriated Surplus	4.26
Local Capital Reserve Transfer	2.70
One-time cost savings	3.23
<i>Subtotal</i>	<i>10.19</i>
Adjustment for 2009/10 Projected Surplus	2.90
<i>Ongoing Impact of 2009/10 Expenditures Funded From One-Time Sources</i>	<i>7.29</i>

This is a growing trend as the impact of one-time solutions compounds from year to year. In its 2009/10 Preliminary Budget VSB estimated ongoing impact of 2008/09 expenditures funded from one-time sources resulted in budget pressures of \$3.29 million; the impact has increased by \$4 million from 2009/10 to 2010/11.

The VSB Board has made a number of choices (either actions taken or not taken) that were short term in nature and did not address the increasing budget challenges and pending structural deficit. Had different choices been made, the budget challenges VSB is facing would be less severe. Examples from 2008/09 and 2009/10 include:

- Transferring funds from the Local Capital Reserve (LCR) to fund ongoing expenditures (e.g. \$2.7 million for 2009/10 and \$0.92 million proposed for 2010/11). The LCR is intended to fund one-time purchases. By using it to supplement the ongoing operating expenses it isn't available for capital projects focused on building capacity, e.g. by improving the educational and information technology infrastructure.
- Using \$2.15 million in one-time funds in 2008/09 to hire permanent staff instead of temporary staff, despite declining enrolment and the recommendations of the DMT.
- Not closing or consolidating schools despite declining enrolment and excess capacity. More recently, using information from the district wide facilities audit, the DMT identified five schools for closure with a combined savings of \$1.68 million per year.
- Maintaining facility rentals and childcare program leases at artificially low rates, forgoing approximately \$1.5 million in annual revenues – after the proposed 2010/11 increases are put through (see section 8).

- Not pursuing proposed concessions from one of its unions that could have addressed lost productivity estimated at \$975,000 annually and could potentially have led to up to \$2.4 million in savings. Pursuing concessions with other unions could also lead to cost savings and efficiencies.
- Providing unfunded services such as full day kindergarten, junior kindergarten and expanded transportation. The 2010/11 budget proposals include reductions to junior kindergarten and transportation; and the full day kindergarten will be fully funded by the province in September 2011. However, for 2009/10 we estimate the cost of providing these services to be \$3.24 million, as follows:
 - Transportation provided to students not meeting criteria – \$0.47 million;
 - Junior kindergarten – \$0.22 million; and
 - Full day kindergarten – \$2.55 million.
- Choosing not to undertake the Program/Services review proposed by the DMT to identify ways for doing business more efficiently. Recognizing the financial challenges of the 2010/11 budget, the DMT proposed a Program/Services Review to develop a more extensive and strategic process to identify priorities, alternative service delivery models and budget proposals. The review was to include showing the impact, in priority order, of reducing the budget to 85% of the 2010/11 base budget in specified programs.

Committee V (Finance and Legal), decided to separate the program review from the budget process and focus the review on educational programs and priorities. The financial component of the review was not completed.

These quantifiable choices have contributed significantly to VSB's budget challenges; for example, collectively the impact of using one-time funding for ongoing expenditures (\$3.29 million), the subsidy of rental rates (\$1.5 million) and the delivery of unfunded services (\$3.24 million) added approximately \$8 million in 2009/10 annual budget pressures.

Although many of the Board's decisions were well intentioned (e.g. with the aim of protecting classroom teachers), our interviews with VSB stakeholders and the educational side of the DMT have indicated that these decisions did not fully achieve their aim. We were told that some of the necessary infrastructure to support the education services has been allowed to deteriorate and the quality of education is not as well supported as a result; for example we were told:

- Using one time funds to support the infrastructure (e.g. information technology, educational supports) would have had more long term benefit than maintaining classroom teachers at all costs.
- Keeping schools open with very low enrolment is not in the best interests of the students attending those schools because of the difficulty of keeping the necessary supports in place.

Strategies for
Addressing the
2010/11 Budget

Although most of the steps VSB has identified to address its 2010/11 budget shortfall are ongoing changes rather than one-time changes, they are reactive. They do not tie to a strategic plan.

To address its budget challenges VSB needs to assess its structure. Continuing to do business the same way and making ad hoc changes to address each year's budget pressures is not sustainable. VSB needs to rethink the way it operates with a view to meeting its educational priorities in a financially sustainable manner in light of an overall strategic plan. Specific areas for consideration to move VSB towards financial sustainability include:

- Revisiting its decisions over school closures and consolidation (see section 7). As VSB's biggest costs are staff and facilities, changes to these costs have to be a key part of any move to financial sustainability.
- Conducting the Program/Services review that was proposed for the 2010/11 budget process. Reviewing programs and services in conjunction with the budget will support the alignment of service and program priorities with available funding.
- Reducing and eventually eliminating the provision of non-core services. Although these services address community needs, they are not funded and their delivery diverts funding away from the delivery of core educational services.
- Generating more revenue by increasing rental rates (see section 8.1). VSB has kept rental rates artificially low to support community and educational groups. The lost revenue would otherwise be available to support VSB's educational services. Rate increases will need to be gradual to manage the effect on users.
- Working with its unions and associations to identify areas where concessions can be negotiated to support greater flexibility and more effective use of staff resources for the benefit of students.
- Continuing to pursue administrative efficiencies (see section 6).

Recommendations:

(25) That VSB:

- **Conduct the program services review originally planned for the 2010/11 budget process;**
 - **Revisit school closures;**
 - **Stop funding non-core services;**
 - **Increase rental rates; and**
 - **Work with the unions to negotiate concessions.**
-

5.0 2009/10 Year-end Forecast

VSB's process for forecasting is reasonable with two exceptions:

- 1) Their forecast includes the total expenditure budget for the year instead of looking at what they have spent to date and projecting what they will spend by year end, which affects the transparency of the forecast; and
- 2) The forecast did not take into account errors identified in the recent distributed learning audit.

Adjusting for these two factors we have increased the projected accumulated surplus at June 30, 2010 from \$3.35 million to \$6.81 million. This could reduce the projected 2010/11 base budget shortfall from \$16.32 million to \$11.79 million.

VSB does not provide regular forecasts to the Board. To a large degree the budget cycle drives the forecast process. Regular financial reporting would ensure the board is meeting its financial stewardship responsibility. We noted other school districts provide financial reports to their board on a regular basis.

5.1 Year-end Forecasting Process

Organizations use financial forecasting to assist them in monitoring their financial results and staying within budget. On a regular basis (usually monthly) an organization will compile its year to date revenues and expenditures, project what it expects the revenues and expenditures to be for the remainder of the year, then combine the year to date and projected results to arrive at its forecasted results for the year. The organization can then prepare its forecasted revenues and expenditures against its budgeted revenues and expenditures. Any significant variances between the forecasted revenues and expenditures and the budget can be investigated and addressed.

A discussion of risks should also accompany the forecast; this provides some basis for the organization to proactively consider possible actions they would take to address any risks that may be realized. Regular monitoring of actual and forecasted results against the budget allows an organization to identify unexpected results and unfavourable trends, and take corrective action where necessary.

The following table sets out how financial forecasting reports are often presented.

Table 7: Pro Forma Financial Forecast

	Actual Results to Date	Projected for the Remainder of the Year	Forecast	Budget	Variance
Revenues • Detailed accounts	A	P	$F = A + P$	B	$V = B - F$
Expenditures • Detailed accounts	A	P	$F = A + P$	B	$V = B - F$
Operating Surplus (Deficit) = Revenues less Expenditures					

We reviewed the VSB forecasting process and found that it is not as structured as the process described above. This difference is partly because the *School Act* allows school districts to submit an amended budget after provincial funding is confirmed in December. VSB's formal forecasting and monitoring occurs from February or March, after the approval of the Amended Budget.

VSB's forecasts and actual to budget monitoring are completed on a consultative basis with divisional heads providing explanations of variances and advising the VSB finance staff of any expected changes in expenditures and revenues. VSB does not have a set calendar for preparing forecasts (e.g. monthly or quarterly); forecasts are prepared on an informal schedule. To a large degree the budget cycle drives the forecasting process.

Because of the demands of preparing the 2010/11 Preliminary Budget, preparing March 31, 2010 figures for the government reporting entity, and the impact of this review, the VSB finance staff were behind in preparing their forecasts. The 2009/10 forecast discussed in this report was prepared for the purposes of this review. We were advised this was the first formal VSB forecast prepared in 2009/10, although the monthly reports provided to the ministry do provide actual results to date, as well as the overall budget.

In the absence of 2009/10 forecasts we had wanted to review 2008/09 forecasts to verify our understanding of the forecasting process and while we were provided with two forecasts from 2008/09, we were advised that information supporting them had not been retained.

Updated forecasts and financial reports are not provided to the Board for review. The Board is engaged in the budget process through key points in the budget cycle. The DMT provides financial updates to the Board if there are significant changes that affect the projected year end results. In addition, financial matters are often discussed in the context of other decisions, e.g. staffing. Both the Board and DMT stated they are satisfied with the amount of financial reporting to the Board.

Regular financial reporting to the board is a recognized good practice for most organizations. We noted some other school districts do provide financial reporting to their boards on a more formal and regular basis. We believe more structured financial reporting would assist the Board in fulfilling its oversight responsibilities (see section 1).

Recommendations:

(26) That VSB prepare projections and forecasts on an established schedule and retain the supporting documentation.

(27) That VSB provide quarterly financial reports to the Board setting out revenues and expenditures to date, projections to the end of the year and a comparison to budget, with explanations of any variances and discussion of any anticipated risks to the forecast and strategies to mitigate the risks.

5.2 Basis for Preparing the 2009/10 Forecast

Before discussing the 2009/10 VSB forecast in section 5.3 it is necessary to first provide some background on the basis upon which it is prepared.

Terminology

In general terms:

- An operating surplus or deficit is the current year's revenues less the current year's expenditures;
- An accumulated operating surplus is the accumulated total of all of the operating surpluses and deficits since the organization began preparing financial statements; and
- An appropriation from a surplus is when funds are transferred from the accumulated surplus to supplement the current year's operations, with Board approval.

Balanced Budget Definition

Under 111(3) of the *School Act*, districts must submit a balanced budget. The ministry budget instructions define a balanced budget as follows:

“Consistent with 2009/10, boards are required to prepare a balanced budget where board operating fund revenues plus any appropriated surpluses fully fund the following:

- annual operating expenses;
- interfund transfers for capital acquisitions, local capital or other purposes;
- planned reduction of unfunded liability for employee future benefits; and
- any planned reduction of prior years’ deficits.”

This definition (specifically the ability to use appropriated surpluses to fund operating expenses) is significant because it allows British Columbia school districts to manage their budgets differently to most public and private sector organizations. To most organizations, a balanced budget means the current year’s revenues must meet or exceed the current year’s expenditures. For British Columbia school districts, however, a balanced budget means that current year’s revenues plus any appropriated surpluses must meet or exceed current year’s expenditures, i.e. they have the ability to draw on prior year’s surpluses to supplement the current year’s operations.

This distinction is often not well articulated and has led to some confusion and misperceptions; for example:

- In its 2010/11 budget consultation documents VSB refers to a 2009/10 projected surplus of \$2.9 million – see Table 5. This is not a surplus in the way most people would look at it.
 - VSB was not projecting to generate a surplus on its 2009/10 operations, it was projecting the remaining balance on the accumulated operating surplus at June 30th, 2010.
 - VSB was projecting it will incur a \$13.27 million deficit on its 2009/10 operations and then draw on its accumulated surplus and other reserves to supplement that deficit.
 - VSB would be left with \$2.9 million in the accumulated surplus after the projected deficit on 2009/10 operations.
- It was reported that VSB had an operating surplus of \$16.59 million at June 30, 2009. This report created a perception that VSB ran a surplus of \$16.59 million on its 2008/09 operations. The actual surplus on 2008/09 operations was \$455,698 (Appendix 4, 2008/09 Actual, net surplus (deficit)). The \$16.59 million was the accumulated operating surplus.

Carry-forward of unused Budgets

An added complication is that VSB sets aside a portion of the accumulated surplus to cover expenditures planned in one year but not initiated till the next. The advantage of this approach is departments are able to roll over unused funds from one year to the next; it, therefore, avoids the problem of spending funds unnecessarily in the current year rather than losing them. VSB's 2009/10 forecast assumes that all unused budgets will be either spent by June 30, 2010 or appropriated for use in 2010/11. Most organizations would project expenditures on the basis of what they actually expect to spend rather than the remaining unspent budgets.

While VSB's approach may work well internally for VSB and is consistent with other school districts, from an external perspective it overstates the projected net deficit for 2009/10 (see Table 9):

- VSB had a \$6.37 million deficit on its operations to March 31, 2010.
- VSB is projecting a further deficit of \$6.45 million for the three remaining months of the year to June 30, 2010.

It seems unrealistic that VSB would incur a higher deficit in the final three months of the year than it did in the first nine months.

The issue appears to be with the Supplies and Services expenditures. Payroll costs are predictable and can be projected accurately but the consumption of Supplies and Services is less systematic and, therefore, less predictable.

In its May 2009 projection, VSB forecasted a deficit of \$7 million to June 30, 2009; the June 30, 2009 audited financial statements reported an operating surplus of \$455,698. The difference was due to actual Services and Supplies being significantly less than projected.

The following table shows actual Services and Supplies compared to the Amended Budget for the years 2004/05 to 2008/09.

Table 8: Services and Supplies

	Amended Budget	Audited Financial Statements (Actual)	Difference
	\$ Millions	\$ Millions	\$ Millions
2004/05	38.54	40.51	(1.97)
2005/06	43.27	44.12	(0.85)
2006/07	42.60	40.39	2.20
2007/08	47.45	39.14	8.31
2008/09	48.23	40.85	7.38

This approach to budgeting and forecasting in part explains VSB's history of forecasting deficits but reporting actual surpluses (see Appendix 4 for a comparison of the last three years' budgets to actuals). The VSB budget and audited financial statements are not prepared on the same basis.

- The budget is based on the premise that unused funds can be carried forward from one year to the next and are therefore absorbed in the year whether they are spent or not.
- The financial statements are prepared in accordance with generally accepted accounting principles, i.e. expenditures are absorbed in the year the goods and services are consumed.

Another factor in creating a surplus is the timing of the release of any ministry holdback, which is often towards the end of the school year; sometimes VSB is unable to use those funds until the following year.

Recommendation:

⁽²⁸⁾ That the ministry provide clear expectations to districts for how to present financial information.

5.3 2009/10 Forecast and Adjustments

The VSB forecast to June 30, 2010 is summarized in the following table.

Table 9: Summary Forecast to June 30, 2010

	2009/10 Amended Budget	Actual to March 31, 2010	Projected April to June 2010	Total Projected Annual to June 30, 2010
	\$ Millions	\$ Millions	\$ Millions	\$ Millions
Revenue	483.34	342.14	142.18	484.32
Expenditures				
• Payroll	448.51	316.04	132.90	448.94
• Services and Supplies	48.11	32.47	15.73	48.20
Total Expenditures	496.62	348.51	148.63	497.14
<i>Net Surplus (Deficit)</i>	<i>(13.27)</i>	<i>(6.37)</i>	<i>(6.45)</i>	<i>(12.82)</i>
• Appropriation of Operating Funds	16.59	16.07	0.52	16.59
• Inter-fund Movement	(.42)	0.19	(0.61)	(0.42)
<i>Grand Total Surplus (Deficit)</i>	<i>2.90</i>	<i>9.89</i>	<i>(6.54)</i>	<i>3.35</i>

The "Net Surplus (Deficit)" is the annual operating surplus.

The "Grand Total Surplus" is the accumulated operating surplus.

Overall we found the VSB forecast to be reasonable, with two specific exceptions:

- as described in section 5.2, the forecast is consistent with the way school districts are allowed to manage their budgets but it is not consistent with the way most organizations forecast; and

- the forecast does not take into account errors identified in a recent ministry audit of distributed learning enrolment.

Our specific adjustments to VSB's 2009/10 forecast are as follows:

1. The recent ministry audit of Distributed Learning identified enrolment errors that could result in a \$1.46 million reduction in 2009/10 funding and a further \$0.93 million reduction in 2010/11 funding. This potential adjustment was not reflected in the VSB forecast to June 30, 2010; we have adjusted the forecast to reflect this potential funding reduction.
2. At our request, VSB projected what they anticipate the accumulated surplus will be at June 30, 2010, based on projected expenditures rather than the carry forward of unused budgets. This projection identified \$4.92 million of unspent salaries and services/supplies budgets. In our view a more realistic forecast takes into account that these funds will not be spent in 2009/10. We have therefore adjusted the VSB forecast by \$4.92 million.

Table 10: Adjusted 2009/10 Forecast

	Projected Annual to June 30, 2010
	\$ Millions
Revenue	484.32
Expenditures	
• Payroll	448.94
• Services and Supplies	48.20
Total Expenditures	497.14
<i>Net Operating Surplus (Deficit)</i>	<i>(12.82)</i>
• Appropriation of Operating Funds	16.59
• Inter-fund Movement	(0.42)
<i>Grand Total Surplus (Deficit)</i>	<i>3.35</i>
Potential Adjustments	
1. Possible impact from ministry Distributed Learning audit	(1.46)
2. Projected unspent salaries and services/supplies budgets.	4.92
<i>Revised Grand Total Surplus (Deficit) (i.e. the accumulated surplus (deficit) to be carried forward to next year)</i>	<i>6.81</i>

Our adjustments are based on the information that was available to us when we conducted our fieldwork in May 2010.

5.4 Impact on 2010/11 Budget Shortfall

The adjustments to the June 30, 2010 forecast could potentially have a carry forward effect on the 2010/11 budget. The accumulated operating surplus is available to supplement the annual operating budget and therefore a larger projected accumulated operating surplus at June 30, 2010 means a larger amount available to supplement the 2010/11 operating budget. If the accumulated surplus at June 30, 2010 was actually the \$6.81 million that we have adjusted it to instead of the \$3.35 million that VSB originally forecast, then an additional \$3.46 million could be available to supplement the 2010/11 budget.

There needs to be a degree of caution in making this assumption because the actual amount of unused budgets will not be known until the audited financial statements are completed in September 2010. The difference is not a short term gain. Decisions regarding the shortfall for the current year still require solutions that are long term in nature.

VSB management has advised us that they believe the unused 2009/10 budgets carried forward to 2010/11 will be spent in full in 2010/11 in addition to the 2010/11 Preliminary Budget; and the carried forward budgets will not have the effect of supplementing the 2010/11 budget. We disagree. Recent years' expenditure patterns indicate unused budgets at the end of each year.

Additionally, in reviewing VSB's base budget we noted some examples of overly cautious budgeting where we expect revenues to be higher or expenditures to be lower (for example, Investment and Interest income is budgeted at \$5,105 for 2010/11, compared to \$859,581 in the revised 2009/10 forecast). We estimate the overall effect of overly cautious budgeting to be a net benefit of \$2 million.

We noted other factors that could further reduce the projected 2010/11 budget shortfall. But in the interests of being conservative we do not propose adjusting for them; for example:

- Recalculation of enrolment (on average the actual enrolment has resulted in increased revenue of \$4 million per year over the last 5 years).
- Release of ministry holdback payment (\$400,000 was released last year).

The following table sets out our potential adjustments to the 2010/11 base budget.

Table 11: Potential Adjustments to the 2010/11 Base Budget

	2010/11 Base Budget	Projected Annual to June 30, 2010
	\$ Millions	\$ Millions
Revenue	481.60	484.32
Expenditures		
• Payroll	460.57	448.94
• Services and Supplies	40.26	48.20
Total Expenditures	500.83	497.14
<i>Net Surplus (Deficit)</i>	<i>(19.23)</i>	<i>(12.82)</i>
• Appropriation of Operating Funds	2.46	16.59
• Inter-fund Movement	0.45	(0.42)
<i>Grand Total Surplus (Deficit) as prepared by VSB</i>	<i>(16.32)</i>	<i>3.35</i>
Potential Adjustments		
1. VSB's conservative approach • Additional grant funding, interest, health premiums, lease revenue etc.	2.0	
2. Larger opening accumulated surplus than expected (\$6.81 - \$3.35)	3.46	Adjustment for unused budgets carried forward 4.92
3. Distributed Learning adjustment	(0.93)	(1.46)
<i>Revised Grand Total Surplus (Deficit) (i.e. the accumulated surplus (deficit) to be carried forward to next year)</i>	<i>(11.79)</i>	<i>6.81</i>

As discussed in section 4, the base budget is the previous year's final budget adjusted for known changes. It is the starting point for preparing the Preliminary Budget, which must be balanced.

The base budget shortfall is the amount of adjustments VSB will need to make to balance the Preliminary Budget.

6.0 Administrative Expenditures and Opportunities for Administrative Efficiencies and Economies of Scale

Comparison
between VSB &
Surrey School
District

Comparisons between school districts must be undertaken with caution as they may not be comparing like with like, as there is no standard chart of accounts for school districts to follow.

VSB has taken a number of steps to achieve administrative efficiencies and economies of scale, including entering into common purchasing and shared services arrangements. Nevertheless, VSB's administration costs have been rising over the past five years for a variety of reasons, including changes to the chart of accounts, collective agreement increases and one-time expenses.

There are further opportunities for VSB to achieve efficiencies and economies of scale through consolidation of district procurement and banking, improved technology and pursuit of additional shared service arrangements.

A strategic information technology plan would help VSB achieve administrative efficiencies by automating some manual processes, improving data integrity and the quality of information, and strengthening access security.

Definition of
Administration

The ministry has issued Operating Fund Account Descriptions and each year issues Financial Statement Instructions but there is no standard chart of accounts for all school districts to follow. Without a standard chart of accounts, comparisons between school districts must be undertaken with caution as they may not be comparing like with like. This is more likely to be an issue when comparing expenditures classified by program as opposed to by expenditure type.

There are two categories of administration expenditures:

- School administration, which includes costs directly related to administering both instructional and business activities at the school level. Included in this program are all activities by office clerical staff and non-teaching time for Principals and Vice-Principals.
- District Administration, which incorporates the cost of all programs related to district governance and district administration of educational, business, human resource and labour relations activities.

VSB's account classification appears to be consistent with the ministry Operating Fund Account Descriptions.

It has been publicly reported that VSB's District Administration costs for 2009/10 were \$3.6 million higher than those for the Surrey School District, which has a higher enrolment. We reviewed the difference and found that it appears to be due to different account classifications (e.g. VSB centralizes some of its IT costs as part of its District Administration whereas Surrey distributes its IT costs – this accounts for \$1 million of the difference).

To compensate for the different account classifications we compared the two districts' combined District Administration with School Administration as reported in their 2009/10 Amended Budgets. This is a more valid comparison given the inconsistency of account classifications but still needs to be viewed with caution. On that basis Surrey's total administration expenditures were higher than VSB's; however, when considered on a per student basis VSB's total administration is still higher than Surrey's. As noted in section 4, VSB's staff costs are high.

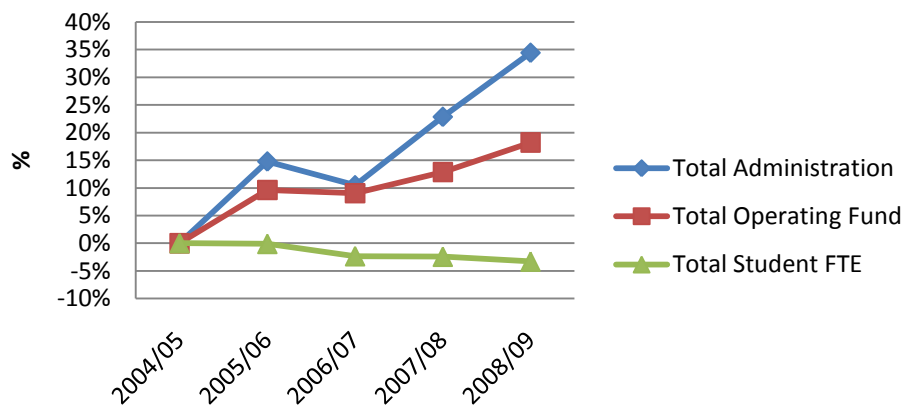
Table 12: Comparison of VSB and Surrey Administration Expenditures

	Vancouver SD	Surrey SD	Difference
	\$ Millions	\$ Millions	\$ Millions
District Administration	15.38	12.20	3.18
School Administration	31.94	36.91	(4.97)
Total Administration	47.32	49.11	(1.79)
2009/10 Enrolment	55,224	66,331	(11,107)
Total Administration per Student	\$857	\$740	\$117

Increase in District Administration Expenditures

VSB's District Administration expenditures have been increasing over the past five years.

Percentage Growth in VSB Admin. Costs, Operating Fund and Student FTEs



The main reasons for the increase in district administration are:

- Collective agreement increases.
- Changes to refine the chart of accounts and more accurately allocate costs (which have involved reallocating costs out of instruction and into district administration).
- One-time expenses, such as PeopleSoft/Oracle license adjustments, and consulting and contracting expenses.

Economies of Scale

VSB has taken a number of actions to achieve economies of scale.

VSB participates in purchasing groups including the Education Cooperative Purchasing Group, which is an educational purchasing group in the Lower Mainland, and the Educational Resource Acquisition Consortium, which is an association of British Columbia school districts.

VSB is making progress at consolidating its own purchasing within the district. Each school is able to purchase certain goods and supplies in addition to those purchased through the district administration. The district is rolling out the e-Procurement module of its PeopleSoft financial system. e-Procurement will facilitate district wide purchasing; we were advised 68 schools are now using the e-Procurement model.

VSB has entered into a shared services arrangement with the Surrey School District for a Worksafe and Health program. VSB also had discussions with the City of Vancouver for a potential shared service arrangement for food purchases; the arrangement was not pursued due to different needs. VSB has also been invited to be an early adopter of the ministry led Integrated Business Administration System.

Additional Opportunities

We believe there are some additional opportunities for economies of scale.

When the rollout of e-Procurement is complete, VSB should require all schools to use it and keep local school purchases to a minimum.

Similarly, each school currently has its own bank account; there is considerable inefficiency in having so many bank accounts. Segregation of school funds could be achieved through the accounting system rather than separate bank accounts. VSB should start to consolidate its bank accounts with a view to eliminating as many school bank accounts as possible.

Although there may be some resistance due to the loss of local autonomy, consolidated purchasing and banking will free up school administration to spend more time on educational matters while putting these administrative functions in the hands of the experts at the district administration office.

There are further opportunities for shared service arrangements with other school districts. However, there are also challenges as individual districts may not have the capacity to take the lead on developing these opportunities. A significant challenge is the impact of collective agreement clauses that place restrictions on contracting for services and the implementation of technology. This is an area where the ministry might be able to take a leadership role.

Administrative Efficiencies

VSB has taken a number of steps to achieve administrative efficiencies, including staff reductions. In 2009/10 VSB reported it achieved \$1.55 million in administrative savings in response to a ministry request for all school districts to find administrative savings that could be redirected to the classroom.

VSB has not developed a strategic information technology plan. There are a number of areas where administrative improvements and efficiencies could be achieved through better technology; for example automation of revenue rental processing, improved data integrity and accuracy, consolidation and integration of related systems and improved access security.

Although there are costs involved in enhancing technology, the benefits include better information for decision making, more efficient processing, reduced risk of error, and reduced risk system failure (e.g. we were advised the human resource management system will not be supported for much longer by the vendor – lack of vendor support significantly increases the risk of failure).

As an alternative to developing new systems there may be opportunities to leverage partners' technology through shared services arrangements with other districts that have already taken advantage of technology in this regard.

An information technology strategy is discussed further in section 7.3.

Recommendations:

- (29) That VSB continue to seek opportunities to achieve economies of scale; specific actions should include consolidation of district procurement and banking.**
 - (30) That the ministry consider establishing a standard chart of accounts for school districts that would allow meaningful comparison of revenues and expenditures between districts.**
 - (31) That the ministry take a leadership role in facilitating the development of shared service arrangements for school districts.**
-

7.0 Short and Long-Term Capital Planning and Utilization

Long range planning has been less than effective. There is no integrated strategic plan and there is no formal long term capital plan. As a result, excess capacity across VSB that has been identified since 1995 continues to be largely unaddressed (4,985 excess spaces in 1995 and 5,796 excess spaces in 2009), space and information technology infrastructure is not being maximized, and costs need to be more actively contained to address the structural deficit.

In contrast short term facilities planning of one to three year periods, has been effective. We have also noted progress as VSB is currently developing a district-wide 60 school audit which is targeted for completion in October of this year. This audit is a more comprehensive approach that considers seismic, other physical conditions, educational fit, heritage, and capacity versus enrolment issues.

VSB is a very large, dynamic organization operating within a complex environment. VSB owns and manages over 250 buildings with over 8 million square feet. As such, VSB requires a comprehensive, long term capital plan developed as part of a strategic planning process directed by educational goals and driven by student enrolment projections.

7.1 Short Term Planning - Capital

Short term facilities planning of one to three year periods, has been effective. The district is using the seismic program as an opportunity to re-calibrate existing schools to reduce operating costs and increase efficiency. As a result, Strathcona Elementary School can reduce capacity from 900 to 500 and Vancouver Technical Secondary School from 2,100 to 1,700. Approximately 30 schools within the school district have been seismically upgraded since 1995.

IT Successes

VSB's Computer Sustainability Plan was recently approved and fully implemented resulting in an estimated 5,700 desktop computers installed in school classrooms and libraries across the district. The objective of the plan was to provide appropriate, standard-driven and contemporary computers for all regular teaching spaces, school offices, and a minimum of a single computer lab per elementary school and two per secondary school.

7.2 Long Range Planning - Capital

As discussed in section 3, VSB has no integrated strategic plan and as such long range planning and capital priorities have been based on multiple priorities identified through the seismic audits, facility reviews, programming needs, enrolment projections and public and ministry priorities. Without an overall strategic plan there is a risk that the identified priorities may not fit the school district's most pressing needs or be consistent with its educational objectives.

For example, we found an instance where an approved school seismic project also ended up on the recommended closure list. Further, at this time, VSB has 20 capital projects in various stages of design and construction and five of these are on hold pending a district wide plan.

7.3 Opportunities

Opportunities are available for VSB to address its excess space and capacity and, therefore, budget deficit issues, through integrated longer term planning, the establishment of strategic partnerships, and through school closures and consolidation.

7.3.1 Integrated Planning

VSB is currently developing a district-wide 60 school audit which is targeted for completion in October of this year. This audit is a more comprehensive approach that considers seismic, other physical conditions, educational fit, heritage, and capacity versus enrolment issues. In particular, the audit will create a closer alignment between facilities planning and educational program planning to ensure space planning is both maximized and supports current educational models such as 21st Century Learning.

The audit is intended to inform a long range, strategic plan to be used in the identification of school closures, consolidation and upgrades. To support this long range capital planning, VSB is adopting a project management methodology and approach and recently recruited two project managers with educational backgrounds.

The need for a district-wide Information Technology Strategy, to support both the classroom and business functions, has been identified by VSB's external auditor on the previous two financial statements. We were advised that network upgrades are now the main priority and need to be addressed. The business side is also in need of upgrades. Information technology enhancements could lead to increased administrative efficiencies and decreased risk of error (versus manual data entry), greater reliability of data and protection of business continuity (e.g. human resource management system).

Recommendations:

(32) That VSB ensure the development of a:

- **comprehensive district wide facilities plan; and**
 - **long term district-wide information technology strategy.**
-

7.3.2 Heritage Schools

Thirty-six schools comprising of fifty buildings within the district are designated by the City of Vancouver as "heritage class A, B or C" sites, and are subject to more stringent construction requirements and extensive consultations with the City of Vancouver on re-zoning, heritage protection and permit regulation. These factors combine to delay the process of capital planning, and potentially increase costs.

Closer school district and municipal planning can mitigate extra time and costs and reduce risks to planning. VSB is looking to establish a Memorandum of Understanding (MOU) with the City of Vancouver to address these approvals and permitting constrictions.

Recommendation:

(33) That VSB support closer working relationships with the City of Vancouver through the establishment of an MOU.

7.3.3 Community Partnerships

VSB has discussed partnership potential with various organizations including the Vancouver Library Board, Vancouver Parks Board, Vancouver Coastal Health Authority and the Ministry of Children and Family Development with the goal of optimizing space. However, we were advised that capital plans are incongruent and that different interests, needs and priorities have impeded any partnership arrangements to date. Based on our jurisdictional research, we found that most jurisdictions are facing similar issues and, likewise, have experienced limited success.

The new “*Neighbourhood Learning Centres*” (NLC) initiative is premised on community partnerships and could provide some needed momentum for such partnerships. The objective of NLC is to optimize the use of school facilities by bringing together education and community services and creating a neighbourhood hub. Examples of NLC services could include early learning or child care programs, health clinics, family services, seniors’ services, and sport programs. Under the initiative, schools will be allotted 15% additional space to accommodate community programming.

In spite of the barriers, partnerships remain a viable means of making the best use of public assets, utilizing excess space and, potentially, of achieving cost savings and should continue to be actively explored as part of a broader strategic planning effort and through NLC.

Recommendation:

(34) That VSB ensure partnerships continue to be actively explored as part of a broader strategic planning effort.

7.3.4 School Year and Service Delivery Model

In its 2010/11 Revised Preliminary Budget Proposals VSB has proposed to reduce the school calendar year by 10 days. It estimates that annual savings of \$1.4 million will be realized through reduced use of support workers and teachers on call.

Along similar lines VSB could consider consolidation of selected secondary school programs; VSB could consider consolidating high cost secondary school programs such as woodwork or culinary arts and moving students between campuses. This approach has the potential to be more cost effective than offering these programs at all secondary schools and would allow those schools that offer them an enhanced profile that might help their enrolment. VSB could take a similar approach with low enrolment courses.

Recommendations:

(35) That VSB ensure existing school space across the school district is maximized as part of a comprehensive district wide facilities plan.

(36) That VSB consider the consolidation of selected secondary school programs as part of a comprehensive district wide facilities plan.

7.3.5 School Closures

A recent school space survey indicated that there is inefficient use of space in schools. Unused classrooms and excess space in vacant blocks tend to be informally taken over and used for the convenience of staff, students, or Community School Team programs. Administrators also have a practice of holding blocks of times even when not needed. These practices hinder the ability to efficiently utilize facilities as well as the opportunities to generate revenue from unused space. Based on this information along with declining enrolment figures, school closures should have been undertaken across VSB.

Closing schools is never an easy decision in any school district, although many districts across the province have closed schools in response to declining enrolment.

In VSB, based on our review, it appears that public and political pressures and resistance to cut teaching positions make school closures more complex and difficult. For example, in the past two years, in response to issues of excess capacity, declining enrolment and financial constraints, the DMT has recommended school closures on three occasions, and none were successful:

- Garibaldi Annex had only 47 students when it was first recommended for closure in November 2007. The option was suspended due to political and public influence, which resulted in a decision by the board to keep the school open for a three year period, the "Save Garibaldi" Initiative. This three year period has now passed and should be re-visited to determine whether closure is still warranted.

- The closing of Queen Elizabeth Annex was also recommended in 2007 with the intent to fund a new school at a UBC site with the proceeds from the disposal of the Queen Elizabeth Annex. The recommended closure and disposal was disrupted due to the ministry's revised policy, "Disposal of Land or Improvements Order", which limits the sale of schools to exceptional circumstances in order to preserve the capital asset base. Later it was decided by the school district to use the site as a single track French Immersion School.
- More recently, using information from the district wide facilities audit, the DMT identified five schools for closure with a combined savings of \$1.68 million per year. Rationales included enrolment figures, location, physical condition, adjacent schools and other issues. This information was to inform part of the current budget development exercise. This recommendation was disrupted as a result of VSB's recently revised policy on school closures.

The new policy includes a 60 day public pre-notification period, in effect, meaning pre-notification needs to be initiated on June 30, 2010 for a school to be closed by September, 2011.

Financial &
Educational
Benefits from
School Closures &
Consolidation

The cost savings VSB can achieve from a policy of school closures and consolidation is substantial. It is estimated that annual net cost savings from closures would be \$6,000 for a portable, \$190,000 for an annex, \$450,000 for an elementary school, and \$1.25 million for a secondary school.

Currently excess space is not being maximized. Based on VSB's September 2009 enrolment numbers, it is estimated that there are 5,796 (including portables) excess spaces across the school district. If these excess spaces were eliminated through closure and consolidation and other means, annual operational savings including salaries and benefits of school administration staff would approach \$5.7 million.

These funds can then be re-directed to educational programs and services to support the learning environment where they are most needed. As well, closing a school enables the district to re-locate alternative programs to the vacant site thereby reducing leasing costs. In addition, closing schools could potentially create more revenue opportunity from lease or rental. Finally, smaller schools with low enrolment may be detrimental to learning. They may lack the resources, specialized assistance and economies of scale found within larger schools that results in a higher quality learning environment.

Recommendations:

(37) That VSB review and assess the Garibaldi School community plan.

(38) That VSB consider closing schools, followed by consolidation, where it is warranted by enrolment and capacity data, and where it is clear that the educational fit and physical condition of the building are no longer useful.

8.0 Revenue Opportunities

VSB owns and manages over 250 buildings as part of its network of 109 schools and non-core properties, including the Education Centre and Kingsgate Mall. As such, VSB has a range of viable revenue generating sources including:

- Building rentals;
- Childcare programming;
- Leases;
- Educational Programming; and
- Food Services.

Between these sources, VSB generated net revenue of approximately \$11 million in 2008/09 (see table 13 below). However, there is potential to increase revenue and reduce costs. Some programs result in losses to VSB while others could be expanded resulting in greater revenue. In addition, some leases are at less than fair market value while for others, the fair market value is unknown. There is also a potential for the school district to reduce operating costs.

Table 13: Potential Revenue Generating and Cost Savings Opportunities

PROGRAM	PROFIT \$	LOSS \$	DMT PROPOSED \$	IN 2010/11 BUDGET PROPOSAL? (Y/N)	OTHER OPPORTUNITIES	COMMENT
Building rentals	unknown	unknown	247,000	Y	\$400,000 by matching Richmond gymnasium and classroom rental rates	Rental revenues are grouped with other revenue sources. District was unable to provide
Childcare Leases		(281,932)	281,932	N	\$1,432,391 based on non-profit rates	Rates comparatively lower to other SDs in LM. Getting to non-profit rates requires an increase of over 700% and would take time
International Students	7,340,000			N	Strong potential growth Strategy is required	Students favor west side school. Potential to market east side schools.
Distributed Learning	2,669,000		70,722	Y	Strong potential growth Strategy is required	Proposal limited to a 1FTE reduction
Adult Education		(2,238,000)	1,086,940	Y	Transfer programs to owned facilities Pursue Collective Agreement concessions	Proposal includes 9.5 FTE reduction +\$100K supplies savings; even with proposal, still over a \$1M annual loss
Continuing Education		(502,000)	\$232,331	Y	Transfer programs to owned facilities at end of current lease, Aug 31, 2011 \$532,000 savings	Proposal includes 5.8 FTE reduction +\$203K supplies savings; even with proposal, still a \$270K annual loss
Cafeteria Programs		(800,000)		N	Contract out 3 non-teaching cafeterias for a potential savings of \$188,613	Est. \$188K savings by contracting for services 3 non-teaching cafeterias, including cutting current loss & estimated royalties; 8 teaching cafeteria still result in annual losses exceeding \$600K
Non-Core Leases	1,218,158			N	Identify and re-negotiate leases at fair market value or move to vacant space.	Difficult to quantify as FMV not known in some cases. Also benefit depends on the extent of school closures.
Total	\$11,227,158	\$(3,821,932)	\$1,918,925		\$2,553,004	

Given the range of revenue generating opportunities, both core and non-core, a comprehensive plan and set of priorities is needed to ensure a strategic approach is adopted and followed. However, the current budget proposal does include a number of revenue generating approaches including rental rate increases, exploring new sources of rental revenue and new lease opportunities. If approved by the board, these proposals should result in additional sources of revenue for VSB; however, more work could be done. To support its long range financial sustainability, we believe that as part of a long term strategic plan the board should expand its efforts in increasing revenue sources with the goals of full cost recovery and optimizing the excess capacity across the district.

8.1 Building Rentals and Leases

VSB has been reluctant to approve rental and lease fee increases since at least 2005. A series of different management proposals to increase fees has taken quite a bit of time to finally be approved. Currently, the non-profit/commercial rate, which provides for full cost recovery plus a small return, is set at \$12.75 hourly for classroom rentals. This is generally on par with adjacent school districts which have a combined average hourly rate of \$11.99 (see table below). A few exceptions include the rental rates to heritage language schools and childcare operators.

Table 14: Hourly Non-Profit/Commercial Rates

N. Vancouver	\$16.76
Burnaby	\$15.00
Richmond	\$19.00
Coquitlam	\$3.15
Surrey	\$8.00
W. Vancouver	\$10.00
Average	\$11.99
Vancouver	\$12.75

The population of about 70 schools, available for rental, is currently close to maximum rental usage. VSB has focused on weekend rentals and secondary school rentals to increase revenue. As well, the evening rental schedule was recently changed from one 3 hour period to two 2 hour periods as a way of generating additional revenue and a Rentals Manager was hired to develop a marketing strategy.

The current policy is to raise rates for non-profit groups and commercial groups annually by the Consumer Price Index. A review of rentals and leases was undertaken during the spring 2009 to address the rate issues and current budget shortfall. A review by an independent consultant in November 2009 led to a report being presented to the Planning and Facilities Committee in December 2009. A status update was then presented to the Committee on April 8, 2010. Within the current budget submission, the DMT has proposed a series of rentals increases with the target to raise revenues from \$1.5 to \$1.75 million in 2010/11.

Childcare Program Leases

The current childcare program model in VSB does not consider full cost recovery rates, capital costs associated with the operation of the centres, or actual space being utilized. Currently, the rate is set at \$8/sq ft/yr (about \$5.15/hr for average 860 sq ft classroom).

If childcare operators were charged the non-profit rate, the total revenue generated would be approximately \$2 million. This is in contrast to the current annual revenues from childcare which are approximately \$234,000. As such, childcare programs are heavily subsidized across the district.

Raising rates is sensitive, affordability is an issue, public expectations are high and the board is not uniformly supportive of it. The Standing Committees are also a barrier. The process has become cumbersome and inefficient both with the volume and the nature of the issues considered by Committee and (ultimately) the Board, as well as the frequency of the meetings.

Childcare (before and after school care) rental fees in VSB are also below average rates of other school districts in the Lower Mainland (see table below).

Table 15: Childcare Rates Cross – School District Comparison

		Surrey	Richmond	Coquitlam	VSB Current
Shared Space in School	Hourly	\$ 12.00	\$ 6.50	\$ 10.75	\$ 2.35
for 80M ² operated 4 hrs/day (191 days/ school yr)	Annual	\$ 10,213.00	\$ 4,966.00	\$ 8,213.00	\$ 1,795.00
Dedicated Classroom Space	Hourly	\$ 12.00	\$ 6.50	\$ 10.75	\$ 5.15
for 80M ² operated 7 hrs/day (191 days/ school yr)	Annual	\$ 17,089.00	\$ 8,690.50	\$ 14,372.75	\$ 6,888.00
Total Childcare Rental Revenue	Annual				\$ 239,832

A new childcare fee proposal recommends a flat monthly rate based on 10-month school year to be phased in over three year period, which then reverts back to an annual cost of living adjustment. This would increase gross revenue to an estimated \$515,924 from the current \$239,832 and results in full cost recovery. The proposed increases would bring VSB rates closer to Richmond; however, still far short of Coquitlam and Surrey. Even with the proposed rate increase, it is apparent that VSB is subsidizing childcare operators at approximately \$1.5 million annually, which is not included in its core funding received from the ministry.

Alternate Use of
School Properties

VSB has a number of properties which may not be required for their core business and which offer the potential for additional revenue streams. Back in 2001, five properties were identified as having strong potential for alternate uses. The two that presented the greatest opportunity included the site of the Grounds Maintenance facility, and the South East corner of the Vancouver Technical School site (Van Tech). A plan was proposed to relocate services to other school sites and make the sites vacant for alternative use with proceeds estimated at \$5 - \$7 million at that time. However, a business case for the moves was never completed, and at this time the ground maintenance/nursery site is still used by VSB as a storage site for schools' vehicles and equipment, and the vacant Van Tech site is still used for storing portable classrooms.

VSB is aware of the potential and has plans to re-assess the viability of these sites for future alternative use, as both opportunities for cost savings through consolidation and for incremental revenue which could result from sales or lease of surplus facilities.

There are a number of factors VSB must consider when exploring possible alternative uses of school properties which limits options. Some of the key factors are location, type of space, the need to ensure there is a compatible tenant, someone who is not taking away business or seen to be in competition with the school district, fits within VSB collective agreement requirements, meets the City of Vancouver by-laws / regulations, fits within the community and meets the ministry's requirements for long term lease.

A comprehensive plan is needed that sets out objectives and strategies for consolidation as well as sales and leasing.

**Non-core
Revenues**

VSB has a number of non-core business opportunities which collectively generate approximately \$1.22 million annual gross revenue. The revenue sources include:

Table 16: Non-Core Revenue

Kingsgate Mall	\$750,000
Shannon Park Annex	\$233,000
BCSTA (Education centre)	\$83,600
Pattison Outdoor	\$58,000
South Hill (Satnam Trust)	\$71,181
Gordon Elementary (Ivy Montessori)	\$22,377

We were advised by VSB that these leases are at or close to fair market value. Work is being done on the leasing framework in order to increase consistency and net revenues.

**Annual Lease
Costs**

VSB leases a number of properties where educational programming is conducted. These annual leases amount to \$693,781. A range of options is being explored aimed at integration and consolidation of these programs and students in order to reduce costs. Most significantly, Continuing and International Education delivered out of the Main Street Education site could be relocated to an owned facility. This annual lease of \$531,961 expires August, 31, 2011. This decision hinges on school closure decisions.

Recommendations:

(39) That VSB:

- **approve rental rate increases identified within the budget submission;**
 - **approve the proposed childcare rate increases to achieve full cost recovery;**
 - **implement annual childcare rate increases as a revenue generating opportunity;**
 - **ensure new leasing arrangements are at fair market value; and**
 - **ensure revenue opportunities and cost containment strategies through leases and consolidation of alternate school properties are part of a comprehensive district wide facilities plan.**
-

8.2 Educational Programming

In an effort to utilize excess space and generate revenue, VSB offers several programs including the International Students Program and the Distributed Learning Program, both of which offer significant growth opportunities. The district also has an Adult Education Program, a large Continuing Education Program which has recently been subject to reductions based on declines in attendance, and Cafeteria Programs.

We found that these programs offer a mix of potential revenue generating and cost containment opportunities; however, there are no clearly defined strategies to support and guide program direction and decision-making, nor are there targets in place to measure results achieved. We were advised the ministry explicitly supports innovative and entrepreneurial programming across school districts.

International Students

VSB has been involved in the International Students Program for 25 years and generates significantly more fees from international students than do the other four districts except for Coquitlam (see table 17 below). The program has grown to 950 students from 20 countries in all 18 secondary schools, 30 elementary schools and 2 Adult Education centers; however, at present, these students are overrepresented in west side schools. The fees are \$12,000 per student resulting in revenues of about \$12 million a year (see table 18 below). The goal for the program is to recruit as many foreign students as they can by increasing the number in eastside schools that participate as part of the program, although there are no defined strategies or targets in place to measure program growth. The board currently does not explicitly support the program.

Table 17: Offshore Tuition by Metro School Districts 2004/05 to 2008/09

Offshore Tuition

Offshore Tuition Fees - \$ millions	2004/05	2005/06	2006/07	2007/08	2008/09
Vancouver	11.9	11.3	11.2	12.6	12.8
Burnaby	4.4	5.4	6.6	7.4	7.9
Coquitlam	15.1	15.1	17.9	17.7	16.3
Richmond	2.7	3.2	3.7	4.8	5.1
Surrey	9.4	10.8	12.8	11.7	10.7

Table 18: Offshore Tuition Revenues and Expenses 2008/09 and 2009/10

Actual (\$)	2008/09 (\$)	2009/10 YTD (up to Apr30/10) (\$)
Revenue	12,682,957	10,171,530
Payroll	4,366,550	3,517,034
Services/Supplies	976,542	769,206
Total Expenses	5,343,091	4,286,239
Net Revenue (Loss)	7,339,866	5,885,290

Based on our review, we believe the program could be expanded further to generate additional profits. However, to enhance success, board support and approval is needed and an expansion plan should be developed as part of an overarching district strategic plan.

A range of revenue generating options for this program have been identified including:

- A wide range of marketing programs including websites, social network, YouTube, seminars locally and overseas, educational fairs, school visits and greater use of agents;
- Improved facilities and more flexible programs in schools in East Vancouver to create room for international students who are mainly attracted to West Vancouver schools only;
- Customized programs for short-term international students to attract them for longer stays; and
- Offer to train offshore principals and vice principals to raise VSB profile.

Distributed Learning

The Distributed Learning Program is also seen as having high growth potential. The Vancouver Learning Network is the largest in the province with 1,300 full time equivalent students. 80% of these students are cross enrolled (combination of classroom and online). The program generates approximately 20% more revenue than they actually spend (see table below). We were advised VSB would like to offer more on line learning programs internationally; however, legislation doesn't currently allow for this. While we were advised that strategic planning with schools has taken place and the district goal for the program is to have every secondary student take at least one online course, there are no defined strategies or growth targets to guide the expansion of the program. Again, Board support and approval is needed and an expansion plan should be developed as part of an overarching district strategic plan.

**Table 19: Distributed Learning Revenues and Expenses
2008/09 and 2009/10**

	2008/09 Actual (\$)	2009/10 Year to Date (4/30/10) (\$)	2009/10 Budget Report (\$)
Revenue	8,154,543	6,814,169	9,385,142
Payroll	4,377,493	3,794,138	4,660,954
Services/Supplies	1,108,298	488,681	1,805,124
Total Expenses	5,485,791	4,282,819	6,466,078
Net Revenue (Loss)	2,668,752	2,531,350	2,919,064

Potential options to generate additional revenue for this program include:

- Offer of blended courses (online and paper-based) to provide more flexible options for students;
- Improved classrooms, which are only basements of secondary schools currently (could take advantage of excess capacity estimated by the Facilities Department); and
- Legislative amendment to allow the expansion internationally.

The results of the ministry's recent distributed learning enrolment audit needs to be considered when planning for the growth of distributed learning.

Recommendations:

(40) That VSB, based on Trustees' explicit support and as part of a strategic plan, develop a revenue generating strategy, for:

- **International Students; and**
- **Distributed Learning.**

(41) That the ministry consider expanding distributed learning internationally.

Adult Education

At this time there are approximately 3,000 full time equivalent student enrolled in adult education programs, about half of them school-aged. The programs are delivered through seven centres plus satellite programs. Trustees are explicitly supportive of Adult Education programming as the program is targeted at students who are at risk.

VSB receives the same funding for school aged students as regular students while funding for adult learners is \$4,000 or approximately two thirds. Adult Education had at one time a 25% profit margin; however, reduced government funding and Collective Agreement provisions (Adult Education teachers make about 12% more than regular teachers) have resulted in the program costing more than the funding it receives, and in 2008/09 the program incurred a net loss of \$2.24 million (see table below).

Potential strategies to address the costs include seeking Collective Agreement concessions and transferring the programs from leased space into owned facilities focusing on after-school hours.

Table 20: Adult Education Revenues and Expenses 2006/07 to 2009/10

Actual	2006/07 (\$)	2007/08 (\$)	2008/09 (\$)	2009/10 YTD (4/30/10) (\$)
Income & Recovery	14,312,051	15,253,860	13,217,813	11,789,244
Salaries & Benefits	13,135,779	13,446,256	14,005,262	11,444,693
Supplies & Expenses	1,172,408	1,242,721	1,450,819	1,211,109
Total Expenses	14,308,187	14,688,977	15,456,081	12,655,802
Net Revenue (Loss)	3,864	564,883	(2,238,268)	(866,558)

**Continuing
Education**

VSB offers the largest night school program outside of Toronto with about 30,000 students enrolled in a number of programs. However, we were advised that non-credit continuing adult education is in steep decline across North America due to factors such as the aging population, technology and cheaper alternatives; and this decline is impacting cost efficiency. Program pricing is based on competition and cost recovery. A fee comparison shows that Continuing Education programs are comparable to similar programs offered by other school districts in the Lower Mainland; however, a large portion of fees collected is spent on salaries and benefits (88%), while advertising and supplies account for 50% of supplies and expenses.

The program has incurred net losses for several years, \$0.5 million in each of the previous three fiscal years. We've been advised of proposed cost reductions of about 43%, including over \$1 million in payroll. According to the 2010/11 budget proposal, the budget net impact will be only about \$232,000 on night schools given the revenue reduction expected. An additional cost savings measure is to re-locate the programs to owned facilities on the lease expiration date of August 31, 2011 (discussed in section 8.1). The two combined actions should result in annual cost savings of \$764,000.

**Table 21: Continuing Education Revenues and Expenses
2006/07 to 2009/10**

Actual	2006/07 (\$)	2007/08 (\$)	2008/09 (\$)	2009/10 (up to 4/30/10) (\$)
Income & Recovery	2,686,798	2,965,440	2,411,582	1,737,027
Salary & Benefits	2,514,527	2,680,499	2,093,224	1,258,502
Supplies & Expenses	716,443	796,557	820,243	609,295
Net Revenue (Loss)	(544,173)	(511,616)	(501,886)	(130,771)

**Cafeteria
Programs**

There are three different food service programs within the VSB with very different rates of profitability. Contracted food services operate out of six secondary schools. VSB employees deliver food services at ten secondary schools as well as the Education Centre. Of these ten schools, eight are Teaching Cafeterias staffed by teachers and other staff members.

According to VSB's internal business analysis report "*Cafeteria Budget Information*" prepared in February 2010, although the non-teaching sites generally have better cost-recovery rates, all 11 staffed sites have not reached full cost recovery as of 2008/09 and require subsidies totaling approximately \$778,000 year to date. As we noticed at the cafeteria at the Education Centre, prices are comparable to market rates and the site just had a general price increase in May 2010.

However, salaries & benefits costs have risen in the past few years from 74.6% of revenue in 2006/07 to 134.3% in January 2010. As a result, cafeteria revenue cannot even cover payroll costs, let alone other services & supplies costs.

The budgets of contracted cafeteria sites are independent of the school district. In contrast to the staffed sites, the school district received royalties from the contractors, on average about \$73,000 annually.

Recommendations:

(42) That VSB, as part of a strategic plan, consider cost containment strategies for:

- **Adult Education;**
 - **Continuing Education; and**
 - **review the compensation and staffing levels of the in-house cafeterias and seek to renegotiate the related collective agreement terms when possible, or consider contracting for services at the 3 non-teaching cafeteria sites.**
-

Summary of Recommendations:

Recommendations	Ministry of Education	Vancouver School Board
<ul style="list-style-type: none"> That the VSB of Trustees fully exercise their duties and responsibilities as defined by the School Act and balance their actions with the full range of its accountabilities and governance responsibilities. That the ministry review the current co-governance model to ensure it is meeting the needs of the public education system. 	✓	✓
<p>That the Board restore the Committee structure to its original intent, as a vehicle for receiving stakeholder input in an effective and efficient manner by:</p> <ul style="list-style-type: none"> Keeping strict control of the process for setting the agenda to encourage a focus on key/significant issues; and Changing the operations of the Committees to ensure that the participation of stakeholder representatives is restricted to the provision of input only, with no involvement in the decision-making process. 		<p>✓</p> <p>✓</p>
That the Board reduce the number of Trustees on the Management and Coordinating Committee and on the Personnel and Staff Services Committee to four or fewer.		✓
That the Board change its philosophy on consensus decision making to better balance the need for input from stakeholders with the operational requirements of the organization, including efficient decision-making and use of staff resources. This might include reducing the number of advisory committees, or restricting stakeholder representation to selected (rather than all) standing committees.		✓
That the Board establish an Audit Committee to provide oversight and make recommendations in respect of the Board's fiduciary responsibilities to the organization.		✓
That Audit Committee membership be restricted to no more than four Trustees (in the majority), supplemented by one or two external financial professionals to ensure the Committee has sufficient knowledge, skills, experience and objectivity to effectively carry out the functions of the Committee. Stakeholder representation should not be included in the Audit Committee.		✓

Recommendations	Ministry of Education	Vancouver School Board
That the Board focus on fulfilling its stewardship responsibilities related to the provision of educational services and limit the amount of staff resources used to support the Advocacy Committee and related advocacy activities to those activities that are demonstrably associated with the business of the school district, as opposed to the political activities of Trustees.		✓
That the Board take immediate steps to fully address concerns about the lack of impartiality of several of the Trustees.		✓
That outside expertise be employed to work with VSB Board and management to implement the governance improvements recommended here (including improvements to the Committee structure and better balance across the full range of Board accountabilities) along with any additional steps required to facilitate an effective working relationship between Trustees and district management.		✓
That the ministry consider developing an avenue by which staff, trustees and stakeholders, can have their concerns reviewed and addressed.	✓	
That the Board meet its obligations in terms of planning and the provision of strategic direction and appropriate oversight to district management and significantly reduce its level of involvement in the day-to-day operations of the school district.		✓
That the ministry promote fiscal responsibility and integrated planning in school districts through a revised achievement contract approach that links services and resources to outcomes.	✓	
That the VSB Board of Trustees, with the support of VSB staff, develop a competency-based approach to Trustee orientation and training, including a formal process for: identifying the competencies required; identifying any “competency gaps” that need to be filled; and filling these gaps through training or access to outside expertise.		✓
That the VSB Board of Trustees implement a self-assessment framework to annually measure its effectiveness. Consideration should be given to sharing the results of this assessment publicly.		✓
That the ministry make Trustee participation in orientation and training mandatory to support Board of Trustee effectiveness.	✓	

Recommendations	Ministry of Education	Vancouver School Board
That the Minister work with the Board to review its administrative practices to ensure that trustees are fully aware of their duties with respect to conflicts of interest, the consequences of failure to comply with those duties, and that board meetings are conducted in a manner that facilitates and supports trustees in the proper exercise of their responsibilities with respect to conflicts of interest under the <i>School Act</i> .	✓	
That the Minister and Board take steps to determine whether the potential for trustee conflict of interest has been realized.	✓	✓
That the ministry review Conflict of Interest provisions set out in the <i>School Act</i> and strengthen the provisions for remedy.	✓	
<p>That VSB develop a strategic plan that establishes direction and priorities. The plan should:</p> <ul style="list-style-type: none"> • form the basis for long term educational and business decisions; • include appropriate performance measures; and • be kept current through periodic reviews and refreshes. 		✓
That VSB support its strategic plan through a long range financial management plan to steer the district to financial stability.		✓
That the ministry should develop a long term strategic plan for education to facilitate better long term planning in the school districts.	✓	
That the VSB improve its budget process by periodically undertaking a zero-based budgeting exercise to validate its incremental budget.		✓
<p>That VSB improve the balance and transparency of its budget consultation documents by:</p> <ul style="list-style-type: none"> • including appropriate context, projected revenues, expenditures and projected operating (deficit)/surplus; • ensuring information included is clear, complete; and • posting its amended budgets and audited financial statements in the same part of its website as the preliminary budgets. 		✓

Recommendations	Ministry of Education	Vancouver School Board
<p>That VSB:</p> <ul style="list-style-type: none"> • Conduct the program services review originally planned for the 2010/11 budget process; • Revisit school closures; • Stop funding non-core services; • Increase rental rates; and • Work with the unions to negotiate concessions. 		✓
<p>That VSB prepare projections and forecasts on an established schedule and retain the supporting documentation.</p>		✓
<p>That VSB provide quarterly financial reports to the Board setting out revenues and expenditures to date, projections to the end of the year and a comparison to budget, with explanations of any variances and discussion of any anticipated risks to the forecast and strategies to mitigate the risks.</p>		✓
<p>That the ministry provide clear expectations to districts for how to present financial information.</p>	✓	
<p>That VSB continue to seek opportunities to achieve economies of scale; specific actions should include consolidation of district procurement and banking.</p>		✓
<p>That the ministry consider establishing a standard chart of accounts for school districts that would allow meaningful comparison of revenues and expenditures between districts.</p>	✓	
<p>That the ministry take a leadership role in facilitating the development of shared service arrangements for school districts.</p>	✓	
<p>That VSB ensure the development of a:</p> <ul style="list-style-type: none"> • comprehensive district wide facilities plan; and • long term district-wide information technology strategy. 		✓
<p>That VSB support closer working relationships with the City of Vancouver through the establishment of an MOU.</p>		✓
<p>That VSB ensure partnerships continue to be actively explored as part of a broader strategic planning effort.</p>		✓

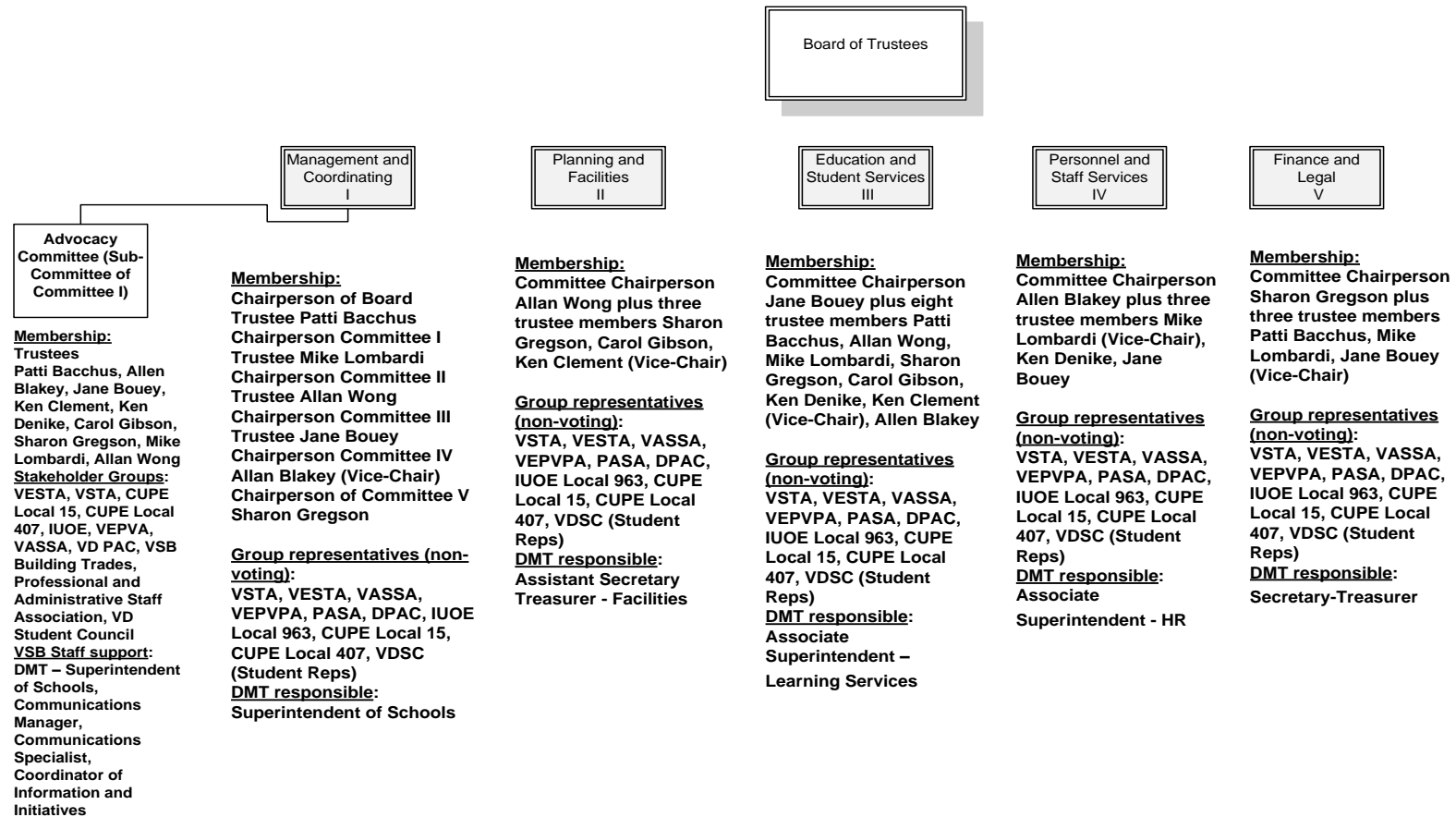
Recommendations	Ministry of Education	Vancouver School Board
That VSB ensure existing school space across the school district is maximized as part of a comprehensive district wide facilities plan.		✓
That VSB consider the consolidation of selected secondary school programs as part of a comprehensive district wide facilities plan.		✓
That VSB review and assess the Garibaldi School community plan.		✓
That VSB consider closing schools, followed by consolidation, where it is warranted by enrolment and capacity data, and where it is clear that the educational fit and physical condition of the building are no longer useful.		✓
<p>That VSB:</p> <ul style="list-style-type: none"> • approve rental rate increases identified within the budget submission; • approve the proposed childcare rate increases to achieve full cost recovery; • implement annual childcare rate increases as a revenue generating opportunity; • ensure new leasing arrangements are at fair market value; and • ensure revenue opportunities and cost containment strategies through leases and consolidation of alternate school properties are part of a comprehensive district wide facilities plan. 		✓
<p>That VSB, based on Trustees' explicit support and as part of a strategic plan, develop a revenue generating strategy, for:</p> <ul style="list-style-type: none"> • International Students; and • Distributed Learning. 		✓
That the ministry consider expanding distributed learning internationally.	✓	
<p>That VSB, as part of a strategic plan, consider cost containment strategies for:</p> <ul style="list-style-type: none"> • Adult Education; • Continuing Education; and 		✓

Recommendations	Ministry of Education	Vancouver School Board
<ul style="list-style-type: none"> Review the compensation and staffing levels of the in-house cafeterias and seek to renegotiate the related collective agreement terms when possible, or consider contracting for services at the 3 non-teaching cafeteria sites. 		

Appendix 1 – Summary of Additional Revenue Generation and Cost Savings Opportunities

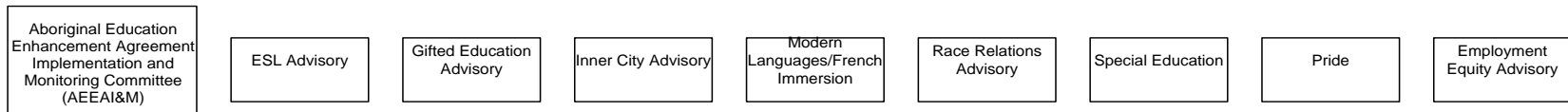
	Annual Potential (\$ Millions)
Cost savings and revenue opportunities identified in the VSB Preliminary Budget Proposal	16.32
Opportunities in addition to those already identified in the 2010/11 VSB Preliminary Budget proposal	
Additional Potential Revenue Opportunities	
Increase childcare lease rates to match the non-profit rates over time	1.43
Increase classroom and gymnasium rental rates to match Richmond rates	.40
Other opportunities not quantified <ul style="list-style-type: none"> • Implement a strategy to increase the number of international students • Implement a strategy to increase the number of distributed learning students • Renegotiate non-core leases to fair market value 	
Additional Potential Cost Savings	
Optimize capacity by closing and/or consolidating schools	Up to 5.70
Identified collective agreement concessions	Up to 2.40
Fully implement e-procurement	1.00
Transfer Continuing Education programs from leased facilities to VSB facilities	0.53
Contract out non-teaching cafeterias	0.19
Rationalize committee structure	0.16
Other opportunities not quantified <ul style="list-style-type: none"> • Alternative use of grounds maintenance facility and Van Tech not required for core business • Further collective agreement concessions • Implement the proposed Program/Services Review • Increased use of shared services arrangements • Increased community partnerships • Consolidation of bank accounts • Consolidation of secondary school programs 	
Total of quantifiable additional annual opportunities	Up to 11.81
Total	\$28.13

Appendix 2 – VSB Committee Structure



Please note that the trustee representation on the standing committees is as of May 21, 2010.

Advisory Committees



Appendix 3 - Financial Position

VSB is in a strong cash position; its liquidity ratios are high and its accumulated surplus is substantial. It does not have significant debt and has no tangible long term liabilities. VSB's financial position is in line with the other Metro Vancouver school districts we reviewed.

Table 22: Summary of VSB Total Cash Position

	June 30, 2005	June 30, 2006	June 30, 2007	June 30, 2008	June 30, 2009
	\$ Millions	\$ Millions	\$ Millions	\$ Millions	\$ Millions
Cash and Temporary Investments	68.18	73.49	89.22	104.04	90.65
Liquidity Ratios					
• Current Ratio	3.10	1.95	3.01	3.43	2.67
• Quick Ratio	2.95	1.90	2.92	3.31	2.59
• Cash Asset Ratio	2.87	1.29	2.70	3.19	2.45
Other Comparisons					
• Cash and Temporary Investments as a Percentage of Operating Costs	16.93%	16.65%	20.32%	22.90%	19.05%
• Cash and Temporary Investments per Student	\$1,188	\$1,283	\$1,592	\$1,870	\$1,634

Cash and Temporary Investments

VSB is in a strong cash position. At March 31, 2010 it had \$98.8 million in cash and temporary investments and projected that it will have \$81.84 million at June 30, 2010.

Liquidity Ratios

We considered the following liquidity ratios:

1. Current Ratio – Is a standard measure of an entity's financial health. It measures the entity's ability to meet its current obligations by measuring if it has enough assets to cover its liabilities. The standard current ratio for a healthy business is 2, meaning it has twice as many assets as liabilities.
2. Quick Ratio – Measures the extent to which an entity can cover its current liabilities with its liquid assets (excludes inventories) and therefore is a tougher measure of liquidity. The optimal ratio is 1.

3. Cash Asset Ratio – Compares the dollar amount of highly liquid assets (cash and marketable securities) for every one dollar of short-term liabilities. Possibly a more accurate measure of an entity's liquidity. The optimal ratio is greater than 1.

In all years VSB's liquidity ratios were healthy and were comparable to the other Metro Vancouver school districts reviewed.

Cash Position in Relation to Operational Requirements

We reviewed two additional ratios to assess how much cash VSB had available for operations compared to the other Metro Vancouver school districts reviewed.

In both cases (Cash and Temporary Investments as a Percentage of Operating Costs; and Cash and Temporary Investments per Student) VSB's ratios were lower than the other districts, which suggests it has relatively less cash available than the other districts. However, as was noted in the 2008/09 Office of the Auditor General report on the Public Accounts there is a significant amount of cash balances in the education system; so scoring being lower on these ratios than their local peers does not mean VSB is short of cash.

Accumulated Operating Surplus

VSB had \$16.59 million in accumulated operating surplus at June 30, 2009; most of which was internally restricted. Internally restricted means VSB has designated funds within the accumulated operating fund for specific purposes. Unlike an external restriction (e.g. where the Minister's approval is needed to access the capital reserve), VSB can remove internal restrictions. The accumulated operating surplus has grown from \$5.59 million at June 30, 2005 to \$16.59 at June 30, 2009. However, VSB is projecting the accumulated operating surplus will be reduced to around \$3 million by June 30, 2010.

Appendix 3 (cont.) - Accumulated Operating Surplus

	June 30, 2005	June 30, 2006	June 30, 2007	June 30, 2008	June 30, 2009
	\$ Millions	\$ Millions	\$ Millions	\$ Millions	\$ Millions
School Fund Balances	0.78	1.05	0.95	2.25	1.58
Collective Agreement Requirements	0.47	0.60	0.81	0.33	0.53
Purchase Order Commitments	0.64	0.31	2.03	0.61	2.33
Amount required to complete approved projects	0.09	0.37	1.17	3.74	2.97
INAC Grant	-	-	0.33	-	-
Distributed Learning	-	-	0.35	1.10	0.39
Misc. Grants and Reserves	3.62	1.02	0.88	2.04	1.32
Funding for Anticipated 08/09 Budget Deficit	-	-	-	5.74	-
Funding for Anticipated 09/10 Budget Deficit	-	-	-	-	6.96
Funding from 08/09 Provincial Holdback	-	-	-	-	0.40
Release for Anticipated 09/10 Budget Deficit	-	-	-	-	-
<i>Sub-total of Internally restricted (Appropriated. By Board)</i>	<i>5.59</i>	<i>3.34</i>	<i>6.52</i>	<i>15.81</i>	<i>16.48</i>
Unrestricted Operating Surplus	-	-	-	-	-0.11
<i>Total available for future operations</i>	<i>5.59</i>	<i>3.34</i>	<i>6.52</i>	<i>15.81</i>	<i>16.59</i>

At June 30, 2009, VSB had the highest accumulated operating surplus of the Metro Vancouver school districts reviewed. Surrey had the next highest at \$11.15 million.

VSB had the highest accumulated operating surplus in three of the five years reviewed. Surrey had a higher accumulated surplus at June 30, 2006 (\$7.85 million) and June 30, 2007 (\$11.32 million).

Appendix 4 – Comparison of Preliminary Budgets, Amended Budgets and Actual Results 2007/08 to 2009/10

	2007/08			2008/09			2009/10		
	Preliminary Budget	Amended Budget	Actual	Preliminary Budget	Amended Budget	Actual	Preliminary Budget	Amended Budget	Projected Actual
Revenue	456.04	458.43	467.85	467.37	476.16	476.40	477.38	483.34	484.32
Expenditures									
• Payroll	410.85	412.61	415.21	429.90	437.01	435.09	443.53	448.51	448.94
• Services and Supplies	41.36	47.45	39.14	39.60	48.23	40.85	39.89	48.11	48.20
Total Expenditures	452.31	460.06	454.35	469.50	485.24	475.94	483.42	496.62	497.14
<i>Net Surplus (Deficit)</i>	3.83	(1.63)	13.50	(2.13)	(9.08)	0.46	(6.04)	(13.27)	(12.82)
• Appropriation of Operating Funds	0	6.52		3.48	15.81		3.81	16.59	16.59
• Inter-fund Movement and Other Adjustments	(3.83)	(1.35)	(4.21)	(1.35)	(2.86)	.32	2.23	(.42)	(.42)
Additional Surplus Remaining from Previous Year			6.52			15.81			
<i>Grand Total Surplus (Deficit)</i>	0	3.54	15.81	0	3.87	16.59	0	2.90	3.35

Appendix 5 – Extract from VSB's 2010/11 Preliminary Budget Proposals

Operating Budget (Reductions)/Additions From 2002/03 to 2009/10 (In thousands of Dollars)																						
	2001-02 Prelim Budget		2002-03		2003-04		2004-05		2005-06		2006-07		2007-08		2008-09*		2009-10		Total Additions / (Reductions)		% Over 2001/02 Final Budget	
	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$	FTE	\$
Instruction (including CIE) ^(a)	4,616.1	295,300.0	(252.9)	(17,054.6)	35.1	2,169.1	(50.7)	(3,963.2)	94.6	5,621.0	8.1	(1665.8)	(35.2)	(1,932.2)	42.0	3,215.7	(18.5)	(2,695.9)	(177.5)	(16,306.0)	(3.8%)	(5.5%)
School based Admin ^(b)	218.4	16,102.8	(24.3)	(1,104.5)	(2.5)	(224.0)	(4.1)	(238.4)	18.0	898.0	0.8	115.8	(1.5)	(153.3)			(7.0)	(528.4)	(20.6)	(1,234.9)	(9.4%)	(7.7%)
District Based Admin	124.8	9,285.4	(9.2)	(630.0)	(15.5)	(1,006.9)	(9.0)	(813.8)	3.7	270.9	5.0	390.0			3.0	871.4	(2.2)	(621.1)	(24.2)	(1,539.6)	(19.4%)	(16.6%)
Facilities, Operation & Maintenance	667.7	49,685.2	(35.4)	(2,509.2)	(3.0)	(215.1)	(16.7)	(1,423.2)					(1.5)	(125.0)	1.0	422.2	(1.0)	(132.0)	(54.6)	(3,982.3)	(8.2%)	(8.0%)
Transportation		2,952.9		(300.0)				(73.0)												(373.0)		(12.6%)
Revenues (Increase) / Decrease				(688.1)		(1,371.6)		(357.5)				(2,250.0)		(1,697.1)						(6,364.2)		
Interfund Transfers Local Capital Reserve Other						(3,789.0)		(1,361.0) 151.8					(1,912.4)							(7,062.4) 151.8		
Accrued Employee Future Benefits																		(442.5)		(442.5)		
Appropriated Surplus				(3,200)												(8,049.3)		(2,700.0)		(13,949.3)		
	5,627.0	373,606.3	(321.8)	(25,486.5)	14.1	(4,437.5)	(80.5)	(8,078.3)	116.3	6,789.9	13.9	(3,410.0)	(38.2)	(5,820.0)	46.0	(3,540.0)	(26.7)	(7,120.0)	(276.8)	(51,102.4)		
^(a) This budget incorporates all programs related to the instructional students. This includes cost of teachers, instructional support, and supplies and expenses for programs such as Regular Instruction, Library Services, Special Education, ESL, CIE, and Aboriginal Education.																						
^(b) This budget includes costs related to administering both instructional and business activities at the school level. This includes office school clerical staff and non teaching time for Principals and Vice-Presidents.																						

Appendix 6 – Summary of Jurisdictional Review

Governance in Out-of-Province School Districts

We conducted a comparative review of governance models of school boards in Alberta, Manitoba, Ontario, Nova Scotia, Northwest Territories, Prince Edward Island and the Yukon. The review included a questionnaire, literature review and personal communication with contacts in various jurisdictions.

Overall, our comparative review found that British Columbia's policies and practices are consistent with other jurisdictions. Most jurisdictions linked funding to enrolment. With the exception of one jurisdiction, all the jurisdictions have elected boards who develop and approve their own budget. The elected school boards' involvement in the development of the provincial education budget is also limited to regular ongoing consultations with the government. No jurisdiction directly supports management capacity of school boards and none have a performance-based compensation system.

Our comparative review also found several initiatives, policies and practices in other jurisdictions, which British Columbia can consider adopting to address typical challenges encountered by school boards across Canada. To monitor progress, school boards in Ontario and Alberta are required to report annually on a common set of indicators developed by the province. Ontario and Nova Scotia requires school boards to have audit committees and Ontario will also provide funding to school boards to establish internal audit functions. Alberta's school boards have realized significant savings by pooling their resources for corporate purchases.

Like British Columbia, Manitoba, Ontario and Alberta have mechanisms within their funding models to protect school district funding in the face of declining enrolment. In addition, Ontario established a Declining Enrolment Working Group which examined the issue of declining enrolment and provided recommendations to address it. In the Yukon, the Staffing Allocation Formula Advisory Committee, composed of representatives from all key stakeholders, developed a new staffing formula designed to give school authorities the flexibility to allocate staffing based on student enrolment.

Commonalities

We found the following common elements, including British Columbia, in the structure, funding model and governance of school boards:

1. Most funding models are linked to enrolment with additional funding for administration and special programs funded through grants or targeted funding.
2. All the jurisdictions except one have elected boards.

3. Most of the school boards' involvement in the development of the provincial education budget is limited to the input they provide during the regular consultation process that government conducts with stakeholders. School boards usually provide key data to government such as enrolment numbers which is applied in the funding model.
4. All the jurisdictions' school boards except for one develop and approve their own budget.
5. Most jurisdictions do not directly support management capacity of school boards. Provincial school board or school trustee associations usually provide this support to school boards through seminars and conferences.
6. Most jurisdictions do not have an incentive system for exceptional performance or a performance-based compensation.

Differences

The review also found the following different initiatives, policies and best practices in these jurisdictions which may be applicable in the context of British Columbia school boards:

1. Ontario set up a Declining Enrolment Working Group to examine the province-wide problem of declining enrolment. The government has already implemented some of the group's recommendations. The key recommendations were utilize long-term planning to address adjustments in costs and operations, greater cooperation and increase partnerships among stakeholders, promote online learning and alternative learning opportunities, and updating the funding formula to balance resources and expenditures.
2. Ontario reports on the progress made by school boards in helping students succeed through School Board Progress Reports. The report measures progress in eight key indicators which include reading and literacy results, class size, credits accumulated by the end of Grade 10. Data for the report comes from Education Quality and Accountability Office, an "arm's length agency of the provincial government", responsible for assessing student skills in reading, writing and math.
3. Ontario will fund the establishment of internal audit functions in school boards. Ontario also requires that school boards have an audit committee which should include members external to the board.
4. Nova Scotia requires an audit committee in school boards.

5. Alberta integrates accountability in its funding model which measures school performance and uses the results for improving programs. Accountability is anchored on a performance management framework with a common set of measures and a common evaluation methodology developed by the province. As part of the performance management cycle, school boards develop and update annually three-year education plans and report outcomes through the Annual Education Results Report.
6. Alberta school boards have realized savings of around \$10 million to \$12 million through a Microsoft Office corporate licensing agreement. It expects to save another \$2 million through a similar agreement for Microsoft Operating System. School boards also saved around \$2.9 million dollars by switching from direct purchases from publishers to buying through the province's Learning Resources Centre.
7. The following jurisdictions support the costs associated with declining enrolment:
 - Manitoba has a minimum funding guarantee which means no school board gets less than 2% increase from the previous year's funding.
 - Alberta provides additional funding to boards if enrolment declines by 1.5% and to individual schools if enrolment declines by more than 4%.
 - Ontario provides funding through the Declining Enrolment Adjust.
8. The Auditor General of Canada examined the issue of declining enrolment in Yukon and made the following recommendations to address the issue:
 - a. Develop HR plan with current and future needs and integrate it in strategic plans.
 - b. Develop action plan to deal with existing differences between current resources and short-term and long-term staffing needs.
9. Yukon recently developed a new staffing allocation formula for the 2010-11 school year. The new formula will retain the "same number of full-time equivalent teaching positions" and at the same time, accommodate "staffing allocations to changing student enrolment numbers."
10. Fort McMurray and Wolf Creek in Alberta are the only school boards we have identified that have a whistleblower policy.