

British Columbia Ministry of Education

Report on the Special Advisor's
Review of the Vancouver Board of Education (District 39)

Final report

June 8, 2015



Building a better
working world



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8 June 2015

Re: Review of the Vancouver Board of Education (District 39)

Dear Minister Fassbender:

I am honoured to present EY's Report on the Special Advisor's Review of the Vancouver Board of Education (School District 39).

VBE has made significant strides in adopting recommendations made by various parties over the past five years, this report identifies numerous opportunities to further improve fiscal responsibility and capital allocation and to enhance VBE's governance practices.

The Special Advisor would like to thank the Board of Trustees, management and staff of the Vancouver Board of Education, the Ministry of Education, other participating school districts and all other review participants for their assistance and cooperation.

Yours sincerely,

Doug Campbell, Partner
Special Advisor

Enclosure

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Terms of reference

- ▶ EY has relied upon unaudited financial information, Vancouver Board of Education (VBE) books and records, financial information provided by VBE, the Ministry and other school districts. EY has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information
- ▶ Certain information referred to in this report consists of forecasts and projections. EY has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information
- ▶ Future oriented financial information referred to in this report was prepared based on management's estimates and probable and hypothetical assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not readily and currently ascertainable, the actual result will vary from the projections, even if the assumptions materialize, and the variations could be material
- ▶ Unless otherwise stated all monetary amounts contained herein are expressed in Canadian Dollars

Defined terms

Accumulated surplus	VBE's net economic resources, representing that amount by which all operating assets (financial and non-financial) exceed all operating liabilities as recorded on the financial statements Consisting of the internally appropriated funds, prior years appropriated surpluses and unrestricted operating surplus (as defined below)
Actual (operating) surplus	Operating results actually incurred, as recorded in the financial statements, where revenues exceeded expenses
AE Centres	Adult Education Centres
AFG	Annual Facilities Grants
AGM	Annual General Meeting
Amended Budget	The third and final budget prepared by VBE for each school year, to be submitted by 28 February before the end of the school year
Appropriation of surpluses	The process by which VBE allocates prior years' surpluses to balance current of future years' budgets
A/P	Accounts Payable
Base Budget	The first of three budgets prepared by VBE for each school year
BC	Province of British Columbia
BCSTA	BC School Trustees Association
Board	Vancouver Board of Education Board of Trustees
CAD or \$	Canadian Currency
CAM Framework	BC Ministry of Finance's Capital Asset Management Framework
Committee I	Management and Coordinating Standing Committee
Committee V	Finance and Legal Standing Committee
COV	City of Vancouver
CUPE	Canadian Union of Public Employees
Deficit forecast	Board projections of future operating results where expenses exceed revenues
DMT	District Management Team
ERM	Enterprise Risk Management
EY	Ernst and Young LLP, Canada
EY (our) Report	This report, dated June 8

FCI	Facilities Condition Index
FTE	Full Time Equivalent
IPP	Initial Preliminary Projection
Internally Appropriated Expenses	Expenses of a prior year that are committed to a future school year by the Board
IUOE	International Union of Operating Engineers
LCR	Local Capital Reserves
LRSFP	Long Range Strategic Facilities Plan
MEd	The BC Ministry of Education, the Ministry
MOU	Memorandum of Understanding
NCLD	Neighbourhood Centre for Learning and Development
Net accumulated surplus	The Accumulated Surplus adjusted for the Internally Appropriated Expenses and unfunded employee liabilities
NGN	Next Generation Network
OCG	Office of the Comptroller General
OCG (2010)	Office of the Comptroller General Special Advisor Report (2010)
PA	Project Agreement
PASA	The Professional and Administrative Staff Association
PDR	Project Definition Report
PIR	Project Identification Report
Preliminary Budget	The second budget prepared by VBE and first to be submitted to the MEd
Prior year appropriated surplus	Funds that are restricted by the Board to offset future year budget deficits
Province	The Province of British Columbia
PwC	Pricewaterhouse Coopers
PwC 2012 Review	Pricewaterhouse Coopers Vancouver School Board Resource Allocation Review 2012
PwC 2015 Review	Pricewaterhouse Coopers Vancouver School Board Resource Allocation Review 2015
PY	Prior School Year
Schools	The Vancouver District's school facilities and annexes
SMP	Seismic Mitigation Program
SPIR	Seismic Project Identification Report

SPP	School's Protection Program
Subset Districts	Central Okanagan, Burnaby, Coquitlam and Surrey (as defined in the Comparative Staffing Levels Report)
SY	School Year
The Act	The School Act, Province of BC Legislature
Unrestricted operating surplus	Surplus of a prior year that has not been appropriated by the Board to a future year budget deficit or specific commitment
VBE	Vancouver Board of Education, the District, School District 39,
VSD	Vancouver school district, the geographical district
VPO	Vancouver Project Office

1. Executive summary

1. Executive summary

On March 12, 2015, the Minister of Education appointed Doug Campbell, Partner, EY LLP, as the Special Advisor under the School Act, S. 171.1(5), to undertake a review to assist the Vancouver Board of Education (School District 39) in:

- ▶ Meeting its obligations to balance its budget;
- ▶ Finding administrative efficiencies;
- ▶ Reducing overhead;
- ▶ Optimizing the use of capital assets; and
- ▶ Improving educational services to students.

More specifically, the Special Advisor was to review, inspect, evaluate and, as appropriate, make recommendations in a report to the Minister by May 31, 2015 (which deadline was subsequently extended to June 8, 2015) regarding the Vancouver Board of Education's:

- ▶ Budget development processes;
- ▶ Financial forecasts and position;
- ▶ Opportunities to reduce overhead, find administrative efficiencies, and maximize revenue;
- ▶ Capital asset management program;
- ▶ Board governance and effective fiscal management; and
- ▶ Opportunities to improve educational services to students.

This review was conducted within the context of the current legal and fiscal framework for British Columbia's public education system. While the focus was on the Vancouver Board of Education, we identified opportunities and recommendations for action by the Ministry of Education to improve its management of, and interaction with, the Board and, where appropriate, identified recommendations for the larger provincial education system.

Rationale for review

The impetus for the review was a 10-year history of significant differences between the Board's forecasted deficits in the Amended Budget and actual surpluses achieved (SY2004/05 this gap was \$0.5 million, whereas in SY2013/14 the gap was \$18.3 million). In addition, over the past four years the VBE has experienced a significantly growing accumulated surplus, which at 30 June 2014 was \$28.4 million.

In addition, historic issues identified by the MEd supplemented the rationale for the review, including a perception by the MEd that the VBE:

- ▶ Lacked adequate strategic, financial and capital asset plans or tools;
- ▶ Focused on short-range planning with little evidence on longer-range district-wide planning;

- ▶ Maintain significant excess capacity within the District with minimal evidence that action had been taken to rectify such capacity challenge;
- ▶ Faced escalating and unchecked deferred maintenance costs and a seemingly stalled seismic mitigation program; and
- ▶ Could continue to identify and implement further cost efficiency and revenue opportunities.

The way forward

Since 2010, several reviews have been completed at the Vancouver Board of Education and Provincial levels, including the Comptroller General's June 2010 Report. In addition changes within the District, since 2010, have included a change in the term and composition of the Board of Trustees, appointment of a new Superintendent, development of key strategic plans, and progress against prior reviews. While a number of changes and a number of actions have been taken to improve governance and operational efficiencies, we have identified significant opportunities to further reduce costs; increase revenue; reduce, consolidate and make more effective use of capital assets; and to strengthen governance and fiscal management.

This review identifies **52 findings** and **59 recommendations**. Those with the largest potential impact include:

- ▶ Establish an accurate and simplified process to develop and approve year over year balanced budgets which support the VBE's education and other priorities (Budget development and forecasting)
- ▶ Critically review the Amended Budget prior to Board approval to ensure accuracy of the budget forecasting and estimate the Internally Appropriated Expenses not expected to be spent prior to finalizing the Amended Budget to minimize financial reporting variances (Accumulated surpluses and deficits).
- ▶ Achieve sustainable long-range cost saving through shared services, efficient and effective processes, commons tools and approaches; clear strategies executed against approved plans. Cost efficiency and revenue opportunities identified could be upwards of **\$35.5 million annually** (Administrative support and overhead efficiencies).
- ▶ Capital assets that support improved student outcomes, at least cost through proactive district-wide long range planning and capacity management. Cost efficiency opportunities associated with capacity rationalization have been assessed at upwards of **\$37 million annually, with one-time proceed opportunities which could approach or exceed \$750 million** (Capital asset management).
- ▶ Update and integrate the Strategic Plan and with operational plans, a performance measurement framework, a Board self-assessment framework, and a formal risk management process. Enhance financial oversight through the establishment of an Audit Committee (Board governance).

Vancouver School District management, the Board of Trustees and the Ministry of Education have an opportunity to take action on these recommendations to maximize the available resources for the benefit of students.

We have identified numerous cost efficiencies, revenue opportunities and capacity rationalization savings. In addition, we have identified potential proceed generation opportunities associated with the capacity rationalization. We summarize the foregoing below and described each in greater in the Executive Summary and throughout the remainder of this report.

Cost and Revenue Saving Opportunities		
Cost and revenue stream	Potential annual cost opportunity	Potential one-time cost opportunity
Potential Financial Benefits from aggressive pursuit of cost and revenue initiatives	In the range of up to \$35.5M	Further investigation required
Capacity Rationalization Opportunities ¹		
Cost and proceed generation stream	Potential annual cost opportunity	Potential one-time cost opportunity
Potential financial benefits from aggressive capacity rationalization approach (Note 1)	In the range of up to \$37M	In the range of \$250M to \$750M*

The following subsections outline the high-level findings and recommendations by categories as defined in the Ministerial Order.

Budget development and forecasting

The budget development process involves varied and extensive stakeholder representation, including VSD Management, the Board, public and teacher and other association representation.

Throughout this budget development process period various budget documents are developed: i) Initial Preliminary Projection; (ii) Base Budget; (iii) Preliminary Budget; and (iv) Amended Budget. Each of these documents is prepared in a sequential timeline over a 16 month period and each document is improved as the assumptions under-pinning the budget documents are validated and become more certain.

Finding: VBE does not have a long-term strategic plan to address multi-year forecasted deficits; currently VBE uses primarily one-time savings and/or revenue opportunities to address deficits each year.

Recommendation: VBE develop a long-term financial plan (not less than 3 years) to allow long-term planning and the assessment of various options for financial stability in the mid- to long-term. It is recognized to accomplish such a forecast will require the VBE to make an assumption pertaining to the operating grant funding (funding amount per pupil (recognizing the funding protection provided by the Ministry)) and the amount of the holdback funds (section 3.4.3).

¹ Note 1: Excludes substantial notes and analysis associated with each of foregoing opportunities (included in main report. * (BC Assessment values before selling costs and taxes)

Finding: The Initial Preliminary Projection (IPP) prepared, about, eight months prior to the start of the school year, is a high-level forecast based on Management's probable and hypothetical assumptions. Based on a historical review, **it is a certainty that there will be a deviation between the IPP and the actual results, and this deviation will be material.** Despite the material deviations that result as between the IPP and the actual results, the Initial Preliminary Projection is a critical element of the budgetary process as it serves as the input module for subsequent iterations of the budgets.

A material cause of this deviation results from a **lack of stakeholder consultation** prior to the preparation of the IPP, consultation that determines the budgetary priorities for any given year. In this regard, the IPP serves to identify the cost elements of implementation of the varied and desired initiatives without the budgetary funding restrictions.

Finding: While in terms of discussions with budget holders, review of trends and budget to actual differences VBE's **process for compiling the budgets is appropriate**, releasing the IPP to the public leads to a **misleading public and stakeholder perception** pertaining to VBE's financial circumstance.

Recommendation: VBE not publicly release the IPP to avoid creating misperceptions by the public of the VBE's financial circumstances (section 3.4.1.1).

Finding: The IPPs do not contain the key elements for reliability and significantly overstate the **forecasted deficit**. The difference between the IPP and the Amended Budget in SY2014/15 is substantial at **\$36 million**. Therefore the release of the IPP to the public is significantly misleading for the public perception of VBE's financial circumstances.

Finding: VBE's budget process involves the **compilation of a significant amount of ancillary documentation** for stakeholders that burdens VBE unnecessarily and does not contribute to stakeholders' understanding of the budget.

Recommendation: VBE critically review documents created in preparing the budget to ensure the information is useful to stakeholders (section 3.4.1.5).

Finding: The final budget prepared for a school year is the Amended Budget, this budget is the culmination of extensive stakeholder input, solidification of the principle assumptions and accounts for known and actual operations for the period of July 1 through to and inclusive of February 28 (29) of a given school year. While VBE's forecasting practices of revenue and expense items included in the Amended Budget are mostly reasonable as principally based on known enrolment, executed contracts or historical costs and revenues, the budget for expenses in any given school year includes expenses that the VBE knows or ought to know, based on historical practice, will be deferred to a subsequent school year. This approach to budgeting is inconsistent with other school districts. VBE's actual practice of **deferring expenses to the subsequent year significantly increases the differences** between budgets, specifically the Amended Budget, and actual results.

Recommendation: VBE should modify the budget process to account for anticipated Internally Appropriated Expenses prior to finalization of the Amended Budget to materially reduce the variance between the budget and actual results.

Accumulated Surpluses and Deficits

Finding: While the approaches followed by VBE to forecast revenues and expenses are generally reliable and appropriate as they are based on enrolment, contracts, or historical costs and trends, there are reporting practices related to the Amended Budget that result in **unreasonably high differences between the Board's forecasted deficits and the actual surpluses**.

Finding: Since SY2007/08, excluding SY2009/10, VBE had **forecasted a significant deficit in the Amended Budget**, but achieved a significant actual surplus. Since SY2010/11 the difference between the Amended Budget and Actual was **significant and increasing from \$8.8 million in SY2010/11 to \$18.3 million in SY2013/14**. While these differences can be explained by unexpected revenue (holdback funds, benefits surplus, and strike savings) and lower expenses (teachers' average salaries); and expenses that were budgeted for a specific purpose ("Internally Appropriated Expenses") but were not actually incurred for the full budgeted amount in the designated school year, the **budgetary processes should be amended to reduce these variances**.

Recommendation: The Board critically review the Amended Budget prior to approval to ensure accuracy of the budget forecasting (section 4.4).

Recommendation: VBE estimate the Internally Appropriated Expenses not expected to be spent prior to finalizing the Amended Budget to reduce the difference between the budget and actual (section 4.4).

Finding: The SY2014/15 year is expected to generate a **surplus of \$7.7 million** (after allocation of **\$23.7 million** of prior year appropriated surpluses and prior to reduction of Internally Appropriated Expenses estimated at **\$10 million**) and the SY2015/16 year is expected to balance. **Preliminary forecasts** for SY2016/17 and SY2017/18 indicate a deficit and are **not considered reliable** by EY as they lack substantive support for the assumptions.

Finding: The accumulated surplus is a balance on VBE's balance sheet and is comprised of: (i) prior year surplus funds; and (ii) funds restricted by the Board for a specific purpose. VBE's **accumulated surplus has increased from \$10.4 million in SY2010/11 to \$28.4 million in SY2013/14**. It is anticipated that the Accumulated Surplus for SY2014/15 will reduce to **\$22.4 million, a reduction of \$6 million**.

Finding: Accumulated **surplus is increasing**, requiring the Board and VSD management's attention to stay within a reasonable range. Accumulated Surplus is **comparable to other school districts** but the SY2013/14 balance is at 3.7% of total operating expenses, outside a reasonable range of 2% to 3%. Although the surplus in SY2013/14 is higher, approximately \$20M (considering \$10 million unspent Internally Appropriated Expenses) of the SY2013/14 surplus is expected to be used in SY2014/15 and SY2015/16 to fund operations. VBE's **accumulated surplus of \$28.4 million at 30 June 2014** is expected to be used to fund specific expenses in future years and deficits in the SY2014/15 and SY2015/16 years.

Recommendation: The Board should determine appropriate threshold targets for the Net Accumulated Surplus as a percentage of operating expenses. EY believes a reasonable threshold target is approximately 2% to 3% of operating expenses. This will promote operational flexibility (section 4.4).

Administrative, support and overhead efficiencies

The Ministry directed EY to identify opportunities for VBE to achieve administrative and support savings through efficiencies, shared services and overhead reductions and to identify opportunities to maximise school district revenue. A data-driven approach was used to identify opportunities, including the use of benchmarks comparing VBE's revenues and costs to those of other school districts in British Columbia.

Finding: From previous reviews, including by the Office of the Comptroller General, PwC and Deloitte, 6 recommendations are fully implemented and 45 unique revenue, cost and strategic recommendations are in progress or not started from previous reports.

Recommendation: VBE continue to implement the 16 remaining PwC identified initiatives (section 5.5) which have a combined potential one-time benefit of approximately \$6 million and a recurring benefit of over \$6 million annually.

Recommendation: Ministry to work with school districts to improve the consistency of reporting revenues and expenses by program and function and should consider regularly benchmarking internal performance across school districts to support school districts with identification of opportunities to increase revenues (section 5.2).

Finding: VBE spend \$100 annually less per pupil than the next highest performing school district other than salaries and benefits. More detailed benchmarking of the cost base of material expenditure types, other than salaries and benefits, identified that **VBE consistently performs well when compared to its provincial peers and provincial average cost per pupil** (section 5.5).

Finding: **VBE has a lower student to support staff ratio** for all staffing types serving regular student population (excluding international students) when compared to its peers. Support staffing costs include department staff for Budget and Finance, Purchasing, HR, IT and Facilities. When total expenditure on salaries and benefits is considered on per student basis, VBE is a median performer when compared to its Provincial peers.

Recommendation: While this review has not explored the rationale for this variation, it is recommended that ahead of the next round of collective bargaining, parties should consider the reason for the variation identified in student: support staff ratios between VBE and a subset of peer districts, as set out in the Comparative Staffing Levels Report (section 5.5).

Recommendation: VBE continue to move forward on cost efficiencies as recommended in historical reports and management proposals, while continuing to explore opportunities to participate in future provincial shared service offerings (section 5.5).

Finding: VBE receives the **highest absolute amount of \$30.4 million** in total non-MEd provincial grant revenue among BC school districts, but is a **median performer** in relative terms.

Recommendation: VBE explore opportunities to increase Summer School enrolment through provision of additional special interest courses and take advantage of the limited number of school districts offering Summer School programs (section 5.4).

Recommendation: VBE continue to explore options to market underutilized schools in the East-side to international students (section 5.4).

Recommendation: VBE conduct a cost-benefit analysis for re-employing a Business Development team responsible for sourcing additional revenue streams such as sponsorships and partnerships (section 5.4).

Recommendation: VBE set strategies to increase rental and lease revenues, including reviewing space requirements against capacity and reallocating the extra space for rental to compatible tenants (section 5.4).

Capital Asset management

VBE's capital asset management program and its planning approach were reviewed to identify opportunities and options to optimize VBE's capital asset portfolio for the benefit of the District's students.

Finding: Declining enrolment has resulted in utilization falling to 83%, well below MED's 95% target, and an increase in surplus seats from approximately 6,000 in SY2009/10 to 10,387 in SY2014/15. As a result, incremental cost of education is significantly higher in VBE compared to peers, as low utilization leads to higher overhead and support staff costs. Reducing VBE's surplus capacity through an aggressive asset rationalization approach, estimated at 19 schools (to align with provincial target of 95% utilization), will result in annual potential financial benefits in the range of up to \$37 million and potential one-time benefits in the range of \$250 million to \$750 million.

Recommendation: VBE commit to considering an aggressive asset rationalization approach, estimated at up to 19 schools, capacity rationalization in its Strategic Plan, Capital Plan and Long Range Strategic Facilities Plan (section 6.6-6.8).

Finding: A targeted capacity rationalization approach that reduces excess surplus capacity could also reduce VBE's seismic risk profile through the avoidance of up to 16 of VBE's 69 outstanding SMP projects. The savings from these SMP avoided projects could be in the range of \$150 million, which could be invested into other schools in the District.

Finding: A targeted capacity rationalization approach that reduces excess surplus capacity could also assist VBE to reduce its significant, rapidly escalating deferred maintenance costs (estimated to be more than \$700 million in SY2014/15) by more than \$100 million.

Finding: Capacity rationalization that releases surplus real estate could: i) result in the generation of significant proceeds; ii) make available such real estate to address other social needs; iii) be retained by the VBE on an interim basis as income producing property or otherwise, until such property is required to address future student needs based on long term enrolment expectations.

Prior to implementing capacity rationalization there are a number of challenges and considerations that need to be addressed, however, the major impediment, **the Board imposed moratorium on school closure, has recently been lifted**, paving the way for the possibility of capacity rationalization being considered in the near term.

Recommendation: VBE needs to complete its LRSFP and carefully assess long-range district-wide scenarios, taking into account its excess surplus capacity forecasts, the seismic mitigation program and deferred maintenance challenges (section 6.6-6.8).

Recommendation: VBE consider capacity rationalization in its Strategic Plan, Capital Plan and Long Range Strategic Facilities Plan (section 6.6-6.8).

Finding: VBE's Capital Project Management Program has been hampered by a **historic lack of tactical tools or centrally held single source core information and data**. This has made it difficult for VBE to identify district-wide needs and establish priorities, and develop and implement projects in a cost-effective and timely manner. These planning deficiencies appear to have accentuated VBE's current excess surplus capacity, seismic risk and deferred maintenance issues. VBE is currently developing a Long Range Strategic Facilities Plan (LRSFP) with a targeted completion date of June 30, 2015 in part, to address these historic planning deficiencies. VBE is also developing an accountability framework to assist in expediting the development and implementation of its projects in the most cost effective manner.

Recommendation: VBE develop tactical tools to identify most appropriate schools for capacity rationalization, incorporate avoidance of seismic mitigation program requirements, avoidance of deferred maintenance and the opportunities for alternative use or revenue generation into its selection criteria decisions (section 6.5).

Finding: With respect to the District's non K-12 real estate, VBE has achieved **significant progress in reducing the number and cost of leases** since 2010. Three leases have been cancelled, resulting in **annual net cost savings of approximately \$665,000**. VBE plans to cancel its two remaining leases, which will result in further **annual net cost savings of approximately \$135,000**.

Recommendation: VBE relocate the Vinery and close Downtown East Adult Education Centre as planned (section 6.9.2).

Finding: VBE currently has very limited information available to quantify revenue and proceed generation opportunities available with respect to VBE's non K-12 real estate.

Recommendation: VBE immediately engage a real estate professional to conduct a market study and prepare a residual land valuation of its priority non-core lands, and K12 capacity rationalized lands (where anticipated), on a prioritized basis to better understand the potential for proceed generation and revenue opportunities within a timeline of six months (section 6.9.3).

Recommendation: VBE incorporate non-core/non K12 real estate in its LRSFP (section 6.9.3).

Board governance

The scope of the governance review was focused on the effectiveness of Board governance, particularly over fiscal management. Within this scope, EY reviewed prior reports provided to the Board and the Minister over the last five years and the actions taken in response to them, as well as the Board's governance practices and capacity with respect to financial matters. The work was undertaken through a combination of interviews, documentation review and consideration of other jurisdictions.

Finding: While VBE has **made progress against prior review initiatives** in some areas that had previously been identified as areas for improvement. VBE have progressed well against 22 of the board governance initiatives identified in previous reports; two were deemed to be fully implemented, 16 were in progress, and four were deemed to have had minimal progress made; notably those pertaining to Board competency and self-assessment, audit committee and risk management.

Recommendation: Action the prior recommendations with regard to Board competency and self-assessment, audit committee and risk management that have not been actioned. These have been incorporated into EY's recommendations (section 7.1).

Recommendation: Underpinning a number of our findings was the opportunity for VBE to develop a new strategic plan and its role in establishing solid accountability and performance responsibilities within the organization. A strong strategic plan will also serve as a catalyst for a number of other areas where VBE has made minimal progress since prior reports; namely, operational planning, development and measurement of performance, risk management, and self-assessment of the Board's performance and collective competency.

Recommendation: Board update its Strategic Plan and integrate it with operational plans, a performance measurement framework, a Board self-assessment framework, and a formal risk management process (section 7.1).

Finding: The review found that, generally, roles and responsibilities are documented and understood by the Board and Senior Management, and that the **decision-making process is based on adequate information**. From a knowledge perspective, Trustee on-boarding and orientation takes into consideration the backgrounds of the Trustees and the fact they may not have financial expertise.

Finding: **Execution of roles and responsibilities inefficient and unclear**. Committees operate on a consensus basis with little to distinguish between voting members, the Board and non-voting stakeholders.

Recommendation: Board further formalize Board and Standing Committee meeting protocols to clarify meeting outcomes and staff actions / follow-up (section 7.4.1).

Finding: **Limited Financial Oversight at Board level**. The Board has not established an Audit Committee to provide objective financial oversight.

Recommendation: Establish an Audit Committee to improve the strength of the Board's fiduciary oversight. This is already being used by the Richmond School District and a legislative requirement in the Province of Ontario. Implementation of an Audit Committee of the Board with external members will help ensure that the necessary skills are in place to oversee these initiatives,

contribute to sound fiscal management and provide the Board with objective and independent advice. While Trustees appear to fulfill their stewardship responsibilities, regardless of their advocacy agenda, an established Audit Committee would support the importance of stewardship and recognize that advocacy follows stewardship and compliance with the School Act. Improvements can be made to committee meetings to make them more efficient and to minimize unproductive use of staff resources (section 7.1).

Conclusion

The Vancouver Board of Education has the opportunity to strengthen governance, improve long term strategic, financial and capital asset planning, optimize the use of its capital assets, and capture other cost savings, efficiency and revenue opportunities by acting on these recommendations. There are many recommendations to consider and these will need to be coordinated with other priorities and existing plans. Taken together, these recommendations will help the Vancouver Board of Education more effectively manage its resources and report on its financial and operational position, all of which will improve educational services for students. The immediate step for the VBE is to consider the recommendations and develop a detailed plan of action.

In addition to the recommendations to the VBE, there are numerous recommendations to consider by the Ministry, recommendations that we believe will have an over-arching benefit beyond the VBE to all BC school districts. Like the VBE, the immediate step for the Ministry is to consider the recommendations and develop a detailed plan of action.

EY would like to thank the Board of Trustees, management and staff of the Vancouver Board of Education, the Ministry of Education, other participating school districts and all other review participants for their assistance and cooperation.

2. Background and context

2. Background and context

2.1 Provincial overview²

The MEd and British Columbia's 60 elected Boards co-manage the education system in B.C. The Treasury establishes the amount of grant funding for public education annually, and uses a funding formula to allocate these funds to Boards.

Boards manage and allocate their allotment of operating grant funds based on local spending priorities. In addition, the MEd provides capital costs and funding for special programs through supplemental government funds.

The funding allocation system provides financial resources for the operation of the K-12 system by using data collected from schools and districts and applying formulae to ensure equity across British Columbia.

2.2 Ministry of Education goals and objectives

The MEd funding allocation formula has the following goals and objectives in managing BC's education system.

- 1) to allocate operating funding so that students in all districts have an equal opportunity to receive a quality education;
- 2) to ensure operating grants are based consistently on the funding formula and are within the budget limits established by the Minister of Finance; and
- 3) to ensure that Boards of Education and the public understand how funds are allocated to Boards.

The budget process and timing is set by the MEd in the Annual Budget Instructions document. The MEd provides an excel template for Boards to use in preparing the amended annual budgets. The instructions document also includes the timing when operating grants will be disbursed.

2.3 Vancouver School District overview

The Vancouver School District is among the most diverse public school systems in Canada with 112 schools, approximately 5,477 full time equivalent employees and an annual enrolment of 49,492 students in Kindergarten to grade 12. In addition VBE provides educational programs and services to full-time Adult Education students. VBE has (SY2014/15) \$467.5M total operating revenue, \$483.4 total operating expense and \$7.7M operating budget surplus for the year (after allocation of \$23.7M of prior year appropriated surpluses and prior to reduction of Internally Appropriated Expenses of \$10M).

² Ministry of Education website: www.bced.gov.bc.ca/k12funding/

The district manages a diverse building portfolio of 702,038m² including new and heritage schools, annexes and a mall.

The district is governed by a Board of School Trustees consisting of nine members, each of whom is elected for a four-year term.

2.4 Financial and budgeting context

Management prepares and releases a series of financial documents that aid the Board and key stakeholders as to the anticipated financial performance of the school district. These documents include the Initial Preliminary Projections, and the Base Budget, Preliminary Budget, and Amended Budget. The documents are prepared as additional information becomes available, over a period of 16 months.

The School Act requires a balanced budget be presented in the Amended Budget.

The budget process involves consultation and interaction with large and diverse group of stakeholders, including:

- ▶ Finance
- ▶ District Management Team
- ▶ Board of Trustees
- ▶ Public, Parent Advisory Councils, staff union and associations

The Secretary-Treasurer has the overall responsibility for budget preparation, in co-operation with the Superintendent of Schools and other senior management.

The budget process involves internal meetings with budget holders, review of budget to actual differences, and trends in expenses. Revenues and expense forecasts are based on enrolment, contracts and historical costs.

Since SY2010/11 VBE has a history of forecasting deficits, but actually realizing an operating surplus. The report explains the reasons.

VBE has an accumulated surplus of \$28.4M at 30 June 2014. The accumulated surplus has been increasing since SY2009/10. The accumulated surplus consists of prior year appropriated surpluses; unrestricted operating surpluses; and, internally appropriated funds. The report explains the compilation of the accumulated surplus, restriction process and expected use.

2.5 Project objectives and scope

In accordance with the Ministerial Order, this review composed of six distinct work streams as follows:

<table> <tr> <th colspan="2">1. Budget development processes / financial forecasts</th></tr> <tr> <td>i</td><td>Review the board's budget processes and development of capital and operating priorities</td></tr> <tr> <td>ii</td><td>Review the 2014-15 to 2017-18 fiscal year forecasts and strategies to balance the multi-year budgets</td></tr> </table>	1. Budget development processes / financial forecasts		i	Review the board's budget processes and development of capital and operating priorities	ii	Review the 2014-15 to 2017-18 fiscal year forecasts and strategies to balance the multi-year budgets	<table> <tr> <th colspan="2">2. Accumulated Surpluses and Deficits</th></tr> <tr> <td>I</td><td>Review the ten year history of deficit forecasts versus accumulated surplus and balances at fiscal year-end</td></tr> <tr> <td>ii</td><td>Review the board's plans for the use of the accumulated surplus reported at June 30, 2014, and forecasted for June 30, 2015</td></tr> </table>	2. Accumulated Surpluses and Deficits		I	Review the ten year history of deficit forecasts versus accumulated surplus and balances at fiscal year-end	ii	Review the board's plans for the use of the accumulated surplus reported at June 30, 2014, and forecasted for June 30, 2015		
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<table> <tr> <th colspan="2">3. Administrative, Support and Overhead Efficiencies</th></tr> <tr> <td>i</td><td>Provide the comparators and/or benchmarks to assess efficiency used by the district and recommend additional measures as appropriate</td></tr> <tr> <td>ii</td><td>Identify opportunities to achieve administrative and support savings through efficiencies, shared services and overhead reductions while protecting student instruction services</td></tr> <tr> <td>iii</td><td>Identify opportunities to maximize school district revenue</td></tr> </table>	3. Administrative, Support and Overhead Efficiencies		i	Provide the comparators and/or benchmarks to assess efficiency used by the district and recommend additional measures as appropriate	ii	Identify opportunities to achieve administrative and support savings through efficiencies, shared services and overhead reductions while protecting student instruction services	iii	Identify opportunities to maximize school district revenue	<table> <tr> <th colspan="2">4. Capital Asset Management</th></tr> <tr> <td>i</td><td>Review the short and long-term capital plan and forecast including school capacity and utilization rates and propose options for optimizing assets to benefit students</td></tr> <tr> <td>ii</td><td>Review the districts capital assets including all buildings, leases, and real estate and identify opportunities to reduce leased space or surplus assets that provide no value to students</td></tr> </table>	4. Capital Asset Management		i	Review the short and long-term capital plan and forecast including school capacity and utilization rates and propose options for optimizing assets to benefit students	ii	Review the districts capital assets including all buildings, leases, and real estate and identify opportunities to reduce leased space or surplus assets that provide no value to students
3. Administrative, Support and Overhead Efficiencies															
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<table> <tr> <th colspan="2">5. Board Governance</th></tr> <tr> <td>i</td><td>Review special advisor, audit and management consulting reports for the district provided to the board or the minister in the past five years and the actions taken in response to recommendations</td></tr> <tr> <td>ii</td><td>Review board governance practices and the board's capacity in respect of financial matters and effective fiscal management</td></tr> </table>	5. Board Governance		i	Review special advisor, audit and management consulting reports for the district provided to the board or the minister in the past five years and the actions taken in response to recommendations	ii	Review board governance practices and the board's capacity in respect of financial matters and effective fiscal management	<table> <tr> <th colspan="2">6. Other matters</th></tr> <tr> <td>i</td><td>Make recommendations regarding other matters arising from the review, inspection and evaluation as deemed appropriate, including process improvements and shared services that the Ministry of Education could implement to support districts in achieving administrative efficiencies and cost savings</td></tr> </table>	6. Other matters		i	Make recommendations regarding other matters arising from the review, inspection and evaluation as deemed appropriate, including process improvements and shared services that the Ministry of Education could implement to support districts in achieving administrative efficiencies and cost savings				
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EY conducted this review as an independent and objective Special Advisor.

3. Budget development and forecasting

3. Budget development and forecasting

3.1 Introduction

3.1.1 Purpose of a budget/budgeting in the education sector

A budget is a summary plan of the expected revenues and intended use of the revenues of an organization. It also serves as a planning and business performance monitoring tool. A budget is a composition of assumptions that results in a cohesive financial framework for current and future time periods. These assumptions include:

- 1) Probable assumptions - assumptions that:
 - a) Management believes reflect the more likely set of economic conditions and planned courses of action, suitably supported and that are consistent with Management's operating plans; and
 - b) Provide a reasonable basis of the budget's use.
- 2) Hypothetical assumptions - assumptions about a set of economic conditions or courses of action that are not necessarily the most probable in Management's judgment, but are consistent with the purpose of the budget and future directions of the enterprise.

VBE's annual budgets are the financial outlines of the District's educational program. Both the Board and VBE regard the budgeting process as an important function/critical element of the management and operation of the school district. The budgeting process serves as a means to improve communications and goal-setting involving both the District and its stakeholders.

VBE submits its budgets to MEd in the Excel template prescribed by the Ministry. All school districts are required to use the same format and template, enabling comparability of budgets and financial results between the districts.

3.1.2 Defined financial terms

To support understanding of sections 3 and 4, the following terms are defined:

Term	Definition
Accumulated surplus	VBE's net economic resources, representing that amount by which all operating assets (financial and non-financial) exceed all operating liabilities as recorded on the financial statements. Consists of internally appropriated funds, prior years appropriated surpluses and unrestricted operating surplus (each as defined below)
Internally appropriated	Funds that are internally restricted by the Board for a specific

funds	purpose
Net accumulated surplus	The Accumulated Surplus adjusted for Internally Appropriated Expenses and unfunded employee liabilities
Prior year appropriated surplus	Funds that are restricted by the Board to offset future year budget deficits
Unrestricted operating surplus	Surplus of a prior year that has not been appropriated by the Board to a future year budget deficit or specific commitment
Internally appropriated expenses	Expenses of a prior year that are committed to a future school year by the Board

3.2 Scope and approach

3.2.1 Work stream scope and objectives

This budget development and forecast review focusses on the effectiveness of VBE's budgeting process overall and specifically the following two ministerial objectives:

Objective I: Review the Board's budget processes and development of operating priorities

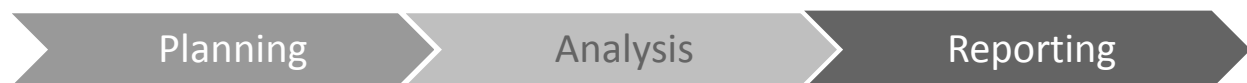
Objective II: Review the SY2014/15 to SY2017/18 fiscal year forecasts and strategies to balance the multi-year budgets

3.2.2 Out of scope

The areas below were out of scope for the review:

- ▶ Reporting requirements to the Ministry: this review did not assess:
 - a) The completeness of the budget reporting templates required by the Ministry for all school districts;
 - b) The timing of admission of the budget reporting templates by VBE to the Ministry; and
 - c) The consistency of the information provided to the Ministry with the financial reporting of VBE.

3.2.3 Methodology and approach



We conducted our review in three phases: planning, analysis, and reporting.

Planning: During the planning phase, we obtained the relevant VBE documents and financial data pertaining to our scope and reviewed the information available addressing our objectives. We reviewed supplementary data and information provided by VBE, as necessary. The following assessment criteria were developed and agreed with VBE and the Ministry:

Assessment Criteria	
Area of Focus	Description of Criteria
Effectiveness of budgeting process	The extent to which the budgeting process complies with statutory requirements and meets the needs of the Board
Development of operating priorities	The development of operating priorities to align with VBE's strategic plan
Forecasting process	The extent to which the forecasting process adheres to best practices
Strategies to balance budgets	VBE's strategies to balance budgets and address the multi-year budget deficit

Analysis: During the analysis, the team performed the following:

- ▶ **In-depth documentation review:** VBE budget documents, budget related publications and financial statements. Documents pertaining to previous external reviews of VBE's budgeting and forecasting processes. Appendix A details a complete list of documentation reviewed.
- ▶ **Analytical review of data:** Financial data provided by VBE and MEd related to the scope of the review.

- **Interviews with key stakeholders:** Interviews were undertaken with key members of VBE's management team, including the Director of Finance, Chief Financial Officer and Superintendent. Appendix B details the complete list of interviews.

Reporting: Findings and observations were presented both to MEd and VBE. The findings and recommendations were tested with representatives of MEd and VBE management in a half day workshop, and ultimately formed the findings and recommendations outlined in this report.

In the pages that follow, key findings and recommendations are presented for:

- The budget process;
- Developing budget priorities; and
- VBE's multi-year forecasts and strategies to balance the budget.

3.3 Summary findings and recommendations by ministry objective

The following table details the most pertinent findings and recommendations that respond to the Ministerial Objectives:

Objective:	Review the board's budget processes and development of operating priorities	Section
Current state findings:	The Strategic Plan does not contain a long-term financial plan to guide the Board in developing budget priorities	3.4.3
	The Initial Preliminary Projections (IPP) do not contain the key elements for reliability and significantly overstate the forecasted deficit. The difference between the IPP and the Amended Budget in SY2014/15 is substantial at \$36.0M. Therefore the release of the IPP to the public is significantly misleading for the public perception of VBE's financial circumstances	3.4.1.1
	While in terms of discussions with budget holders, review of trends and budget to actual differences, the budget process is appropriate , releasing the IPP to the public leads to a misleading public and stakeholder perception pertaining to VBE's financial circumstance	3.4.1.4
	VBE's budget process involves the compilation of a significant amount of ancillary documentation for stakeholders that burdens VBE unnecessarily and does not contribute to stakeholders' understanding of the budget	3.4.1.5

Objective:	Review the board's budget processes and development of operating priorities	Section
Top recommendations:	VBE develop a three-year financial forecast in the Strategic Plan in order to better develop operating priorities in line with the Strategic Plan	3.4.3
	VBE not publicly release the Initial Preliminary Projections to avoid creating misperceptions by the Public of the VBE's financial circumstances	3.4.1.1
	VBE critically review documents created in preparing the budget to ensure information is useful to stakeholders	3.4.1.5

Objective:	Review the 2014/15 to 2017/18 fiscal year forecasts and strategies to balance the multi-year budgets	Section
Current state findings:	Forecasting approach to estimate revenues and expenses for the Base Budget, Preliminary Budget and Amended Budget generally reliable (subject to the discussion in Section 4.4 that explains the significant variance between actual results and the forecasted deficit)	3.5
	Unreasonable high differences have been observed between the Board approved Amended Budget and the actual results, primarily resulting from unexpected revenue and lower expenses, the late payment of the Holdback Funds and not recognizing unspent Internally Appropriated Expenses	3.5
	The Strategic Plan does not contain a long-term financial plan to guide the Board in developing budget priorities	3.5.3
Top recommendations	MEd undertake a review of the holdback process to mitigate the size of the holdback and accelerate the release of the holdback funds	3.5.2
	VBE prepare a three-year financial forecast to allow for long-term decision making and the assessment of various options to maintain a balanced budget (such forecasting should be aided by an iterative financial model)	3.5.3

Objective:	Review the 2014/15 to 2017/18 fiscal year forecasts and strategies to balance the multi-year budgets	Section
	VBE should modify the budget process to account for anticipated Internally Appropriated Expenses prior to finalization of the Amended Budget to materially reduce the variance between the budget and actual results	3.5

The rest of this section outlines the full details on the analysis supporting the findings and recommendations.

3.4 Budget process

Management prepares and releases a series of financial documents that aid the Board and key stakeholders in assessing the anticipated financial performance of the school district. These financial documents include the following (each of which is described in greater detail below):

- ▶ Initial Preliminary Projections (IPP)
- ▶ Base Budget
- ▶ Preliminary Budget
- ▶ Amended Budget

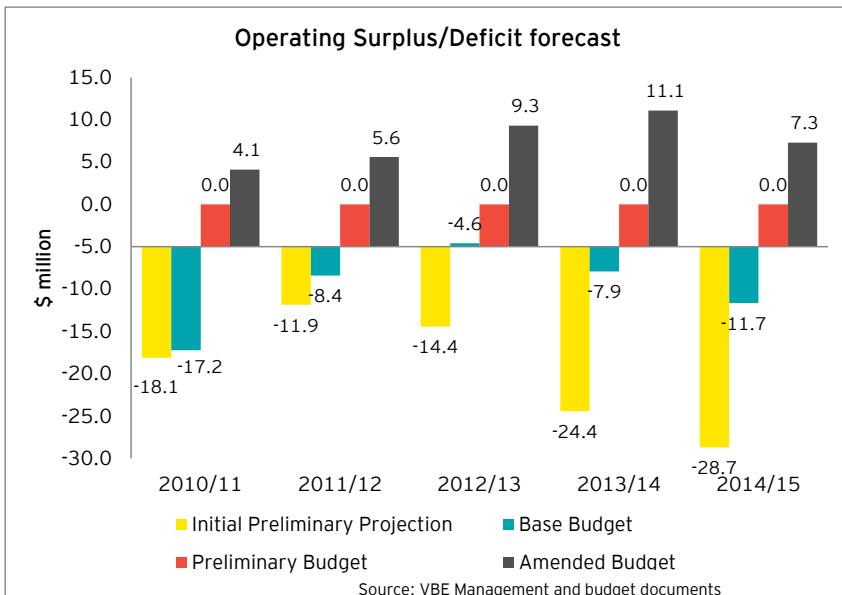
3.4.1 Budget compilation process and documents

3.4.1.1 Initial preliminary projections (IPP)

Management prepares and releases the Initial Preliminary Projections (IPP), (also referred to by the VBE as the “initial funding shortfall”), usually between October and December of the year prior to the start of the school year. The IPP are high-level estimates based on the probable and hypothetical assumptions as determined by Management. Management discloses that the projection should be considered as a range estimate rather than discrete numbers, and is subject to substantial amendment as the assumptions become more certain and decisions pertaining to future school years are crystallized.

The IPP serve as the input module for the Base Budget and excludes recognition of prior year operating surpluses and current year budget priorities, which are mainly established as part of the Base Budget development process. As VBE develops the various projections and budgets (described below), different information becomes available and different assumptions are made. As illustrated below, we found the IPP to significantly overstate the operating deficit. During the past five years the difference between the IPP and Amended Budget was significant, with an operating deficit overstated in the range of \$17.5M in SY2011/12 to \$36.0M in SY2014/15.

Chart 3.1 - Operating Surplus/Deficit forecast



In SY2013/14 the IPP deficit forecast is significantly lower as it excludes the appropriation of \$22.4M of prior year surpluses, which is included in the Amended Budget's surplus of \$11.1M. In Chart 4.1 below the SY2013/14 Amended Budget deficit of \$11.3M is shown before the appropriation of \$22.4M prior year surpluses

Note: the X axis in the chart above is set to -\$5.0M to show the Preliminary Budget at \$0M.

Key observations:

- 1) The difference between the Initial Preliminary Projections and the Amended budget is substantial in any given school year;
- 2) The basis of presentation as between the IPP and Amended Budget (as presented to the public stakeholders) differs. The IPP excludes the prior year appropriated surpluses; whereas, the Amended Budget includes the prior year appropriated surpluses. These appropriated surpluses range from \$10M in SY2010/11 to \$22.4M in SY2013/14. The exclusion of the prior year appropriated surpluses from the IPP materially overstates the deficit; and
- 3) Differences arise as a result of a lack of budget prioritizing in the IPP and the greater certainty as more information becomes known closer to the start of the school year.

Permitting the Initial Preliminary Projections to become public leads to a misleading public perception of VBE's financial circumstances. This document serves as a planning forecast tool used as the starting point for the Base Budget, and as such is not a reliable projection of the operations for the forecast school year.

Finding 3.1: The Initial Preliminary Projections (made public October to December the year prior to the start of the school year) do not contain the key elements for reliability and significantly overstate the forecasted deficit

Regarding the Initial Preliminary Projections:

- It is anticipated by Management when preparing the IPP that the probable and hypothetical assumptions will change (and such changes may be substantial) as a result of developing priorities

and changes in operating parameters

- ▶ The preliminary deficit is uncertain and overstated
- ▶ It causes unnecessary concern about potential deficits that have not historically materialized

Recommendation 3.1

VBE not publicly release the Initial Preliminary Projection.

VBE publish and disclose only the Preliminary Budgets and Amended Budgets, as described below, to minimize confusion about forecasts, complying with practices of comparable school districts.

3.4.1.2 Base budget

The Base Budget development begins in February prior to the start of the school year. For example, the Base Budget for the SY2015/16 began in February 2015.

The Base Budget is compiled by the VBE making changes to the assumptions in the Initial Preliminary Projection.

The Base Budget is usually in a deficit position, meaning that the “wish list” is greater than the money available to fully achieve such wish list. As such, Management starts the budget balancing process and begins consultation with the Public in April to review and approve the budget balancing process and establish amended budgetary priorities for the coming year.

3.4.1.3 Preliminary Budget

Having estimated its enrolment and knowing the available government funding, VBE starts to prepare the Preliminary Budget from April to June prior to the start of the school year.

The process for building on the Base Budget and finalizing the Preliminary Budget involves significant consultation, through the Board and its committees and through budget-specific public meetings. This consultation informs the Board in establishing its budget priorities.

Budget planning involves all levels of school and district staff, and assistance is also sought from Parent Advisory Councils, staff unions and associations, and other interested groups and individuals.

The Preliminary Budget is submitted to MEd and is required by the School Act to balance. In balancing the Preliminary Budget, Board revenues plus any prior year appropriated surplus are required to fully fund the funding shortfall, as summarized below:

Balancing the budget	
+	-
<ul style="list-style-type: none">▶ MEd Funding (operating, special purposes and capital)▶ External revenue	<ul style="list-style-type: none">▶ Annual operating expenses▶ Annual special purpose fund (SPF) expenses▶ Annual capital fund expenses

services	▶ Tangible capital asset acquisitions
▶ Prior year appropriated surplus	▶ Planned reduction of unfunded liability for employee future benefits
	▶ Prior period budget of commitments not incurred

The Preliminary Budget historically tends to be conservative due to the uncertainty of projected student enrolment and the related provincial funding (primarily related to the holdback - discussed in section 3.5.2). By being conservative, VBE reduces the risk of a significant revenue shortfall when student enrolment is confirmed.

3.4.1.4 Amended Budget

By end of September, student enrolment for the year is confirmed. VBE has better certainty as to its provincial funding once enrolment is confirmed. The Ministry confirms its funding in December, based on the September enrolment.

With enrolment and provincial funding established, the Finance department adjusts its Preliminary Budget and prepares its Amended Budget between September and February of the school year.

Actual staffing levels and payroll expenses are examined in mid-December. These actual staffing levels and payroll costs are compared to budgeted staffing levels and payroll costs, and reasons for differences are sought from the budget holders. With these actuals, and variances known from budget holders, the budgeting team recasts the staffing budgets in January, forecasting the staffing levels to the end of the fiscal year, June 30. These staffing budgets are then reviewed by budget holders in January. A similar actuals-based approach is taken with non-payroll expense line items.

Every month (September to January) the Finance group has Budget Shepherd meetings with the budget holders (Managers overseeing specific areas such as facilities, international students) to review the previous month's actual operations. These meetings are conducted by a staff member in the budget group, and attended by the budget holder, and often one or two of their direct reports.

Funds that are anticipated in February to not be expended by the June 30 fiscal year-end are identified, separated, and, often, a Board resolution is sought to apply the funds and the associated expenses to which funds were earmarked to next year's budget.

The Amended Budget is sent to the Board for approval and, if in a deficit position, the Board is required to seek deficit approval from the Minister of Education.

The Amended Budget used internally is different from the Amended Budget submitted to the Ministry. The Amended Budget provided to the Ministry includes prior year appropriated surpluses only to the extent that the budget balances (i.e. zero surplus). Whereas the Amended Budget used internally and presented to the Board includes all prior year appropriated surpluses not allocated to following years. The Ministry's budget instructions prescribe that appropriations should not include prior years' surpluses that will not be spent in the current school year.

The table below illustrates the differences for SY2014/2015:

Amended Budget - SY2014/15 (M)		
	VBE	Ministry
Revenue	467.5	467.5
Expenses	(483.3)	(483.3)
Deficit	(15.9)	(15.9)
Net transfers to/from other funds	(0.3)	(0.3)
Employees Future benefits - unfunded liability	(0.1)	(0.1)
Deficit	(16.3)	(16.3)
Prior years surplus appropriation	23.7	16.3
Budget surplus	7.4	0.0

Subsequent to submitting the Amended Budget to the Ministry, as reflected above, VBE made minor changes to the budget to the effect that the expected budget surplus is revised to \$7.7M.

In this report where we refer to the Amended Budget we refer to the internally used budget as submitted to the Board (column “VBE” in the table above).

Finding 3.2: In terms of revising assumptions as additional information becomes available, doing variance and trend analysis, and conducting monthly budget meetings, the budget process is appropriate to enable the compilation of reasonable Preliminary Budget and Amended Budget. However, releasing the Initial Preliminary Projection to the public, which is an initial financial estimate at best, and not a fully developed budget, is improper. The release of this estimate to the public is significantly misleading

The budget process is appropriate as:

- ▶ Monthly meetings (Sept-Jan) are conducted between the Finance group and budget holders to review actual results to budget
- ▶ The Finance group reviews actual results for trends
- ▶ The Finance group does actual to budget comparisons to highlight areas for review throughout the budgeting process

3.4.1.5 Other documents

In addition to the budgets described above, VBE prepares various other documents that are published on the website; including shortfall updates, a fiscal framework and a restoration budget. See Appendix C for a list of documents prepared for SY2015/16.

In addition to the documents, prior year budget documents include references to the following year's forecasts, which as described above lack a substantive basis of reliability for estimating actual results. Based on our review of comparable school districts (including Surrey and Central Okanagan), VBE prepares more documentation, provides more updated budgeting proposals and has more stakeholder meetings than its peers.

Two documents included in the website are of particular note:

- 1) the "Fiscal Framework" provides historical information based on the amended budget - It is not obvious what the use of the historical figures is in preparing the SY2015/16 budget. An explanation of the differences between the forecasted deficit and actual surplus for the previous school year would be useful and provide the user context for the variances.
- 2) the "Restoration Budget" was prepared to calculate the additional funding required by VBE to "restore the same level of service that was in place over a decade ago". There is no clear use for this document.

Finding 3.3: VBE's budget process involves the compilation of a significant amount of ancillary documentation for stakeholders that burdens VBE staff unnecessarily and does not contribute to providing a clear understanding of the budget to the stakeholders or to assist the Board in developing strategies to address future deficits

VBE budget process documents:

- ▶ In addition to internally used documents, VBE prepared seven publicly disclosed budget documents
- ▶ The documents provide historical budget information, and other information. For example, the "Restoration Budget" addressed the question of what funding would be required by VBE in order to "restore the same level of service that was in place over a decade ago"
 - ▶ Given that the documents do not address future deficit, it is not obvious what use the documents add to the stakeholders' understanding of the budget and budget process

Recommendation 3.2

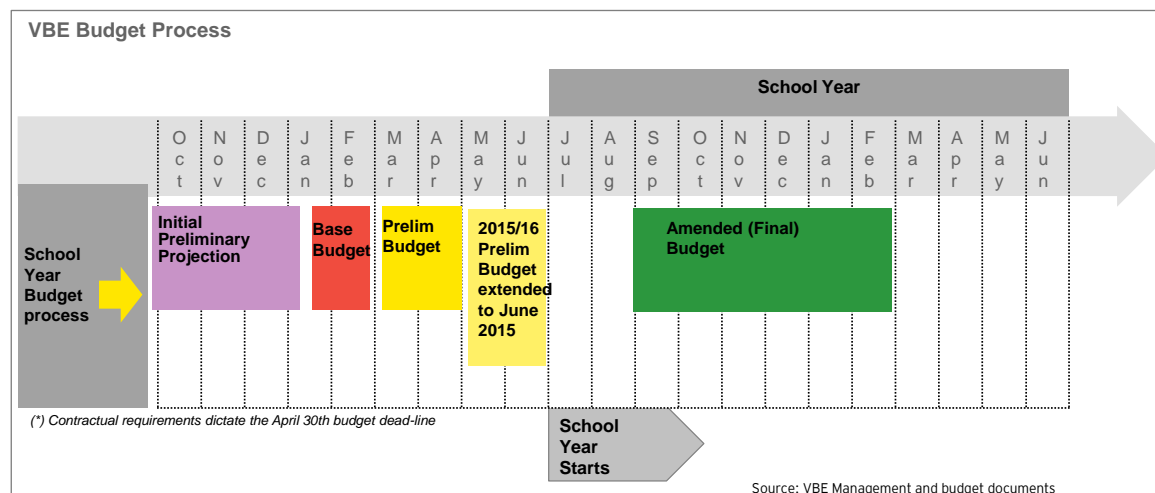
VBE critically review the documents created in preparing the budget, considering the level of activity with stakeholders, and limiting the information provided to that which is useful to stakeholders. Providing the Initial Preliminary Projection and all the subsequent changes does not benefit stakeholders and burdens VBE's Finance department unnecessarily.

3.4.2 Budget timeline

- 1) The Initial Preliminary Projection is developed approximately eight months prior to the start of the school year, around October to December.
- 2) The second document; the Base Budget is approved by the Board in February prior to the school year start.
- 3) The Preliminary Budget must be approved by the Board and submitted to MEd by June 30 (although it is generally approved by April 30 to accommodate contractual requirements).
- 4) The Amended Budget is approved by the Board and submitted to MEd prior to Feb 28 of the current school year.

As such, VBE updates the budgets for each school year over a period of approximately 16 months. Note in SY2015/16 the Preliminary Budget period was extended to June 2015 to accommodate this Review. The chart below illustrates the timing of these projections and budgets³:

Chart 3.2 – VBE Budget Process



Although the internal budgeting process starts in October the year before the start of the school year, the external process with stakeholders only starts in April, a month prior to the release of the Preliminary Budget. A 16 month period of budgeting is protracted and allows for substantial deviation in the assumptions throughout this period.

³ The timing of the 2015/2016 budget process has been extended to consider this report. As such, the Preliminary Budget is expected to be approved on 29 June 2015.

3.4.3 Developing budget priorities

VBE's vision, which drives the budget priorities, is:

Engaged Learners – Inclusive Schools – Caring Communities

VBE's strategic plan forms the foundation of the budgeting priorities. The current strategic plan outlines four goals:

- 1) Students are fully engaged in learning;
- 2) All students are included and have the opportunity to succeed;
- 3) Communities, families and educational partners are effectively engaged in supporting student success; and
- 4) The school district is efficient, effective and sustainable.

Note that VBE's current Strategic Plan does not include a long-term financial plan that indicates how the Strategic Plan priorities influence financial planning decisions.

Budget guidelines are derived from the strategic plan. These guidelines are:

- 1) Priority to Core K-12 mandate;
- 2) Minimize impact on the classroom;
- 3) Comply with existing legislation and collective agreements; and
- 4) Maintain support for students with special needs.

According to VBE, the budget guidelines inform the Board's operating priorities, and determine where they allocate or cut resources.

It is not obvious how the budget guidelines influence the decisions made by the Board as the impacts of those decisions lack a long term integrated assessment impact.

Finding 3.4: The Strategic Plan does not contain a long-term financial plan to guide the Board in developing budget priorities

VBE's development of budget priorities:

- It is not clear how the budget guidelines influence the decisions made by the Board as the long-term impact of those decisions are not integrated throughout a long term financial plan

Recommendation 3.3

VBE include a three-year financial forecast in the Strategic Plan in order to better develop operating priorities in line with the Strategic Plan

VBE obtain the proper tools to do efficient long-term planning, such as an integrated forecast model

3.5 Multi-year forecasts

3.5.1 Forecasting process

VBE forecasts the expected revenues and expenses throughout the year as more information becomes available, and prepare the budget documents released publicly.

The most significant revenue and expense items are estimated as detailed below:

VBE's approach to forecasting revenue and expense items			
Item	SY2014/15 budget	\$M	Approach
Revenue - MEd and Federal grants	94%	436	The operating grant received from the MEd is largely based on enrolment. Additional MEd grants, such as the Education Plan Supplement, are included in MEd revenue.
Revenue - Tuition	4%	21	Tuition revenue is based on forecasted international students.
Revenue - Other and rentals and leases income	2%	11	Other revenue includes investment income and is based on expected investment balances. Rental and lease income is based on rental and lease contracts.
Total revenue	100%	468	
Salaries & benefits	91%	439	Teacher salaries and benefits are determined based on enrolment numbers. Top-down: The number of student enrolment generates a formula-driven number of teachers. Bottom-up: Human resource staff builds the actual classes at each school based on the estimates for student enrolment at each school and for each grade.
Supplies	3% of expenses	16	Common supplies are mostly purchased under contract. Many of these contracts have been developed and negotiated with suppliers based on the request for proposal process.

VBE's approach to forecasting revenue and expense items			
Item	SY2014/15 budget	\$M	Approach
Services	2% of expenses	12	Services are based on contracts in place, reviews of current year operational plans, or prior years' and current trends.
Utilities	2% of expenses	9	Where possible, contracts are in place for utilities. If a contract is not possible or feasible, VBE uses historical cost plus published increases.
Transportation, insurance & other	2% of expenses	8	Based on contracts, historical costs, plus known increases and inflation.
Total expenses	100%	484	
Operating deficit		(16)	
Appropriation of PY surpluses		24	
Budget surplus		8	

Source: VBE Management and budget documents

Finding 3.5: The approaches followed by VBE to forecast revenues and expenses for the Base, Preliminary and Amended Budgets are generally reliable

VBE's forecasting:

- Forecasts are appropriately based on enrolment, contracts, or historical costs and trends
- As seen in Section 4.4 salaries and benefits continue to cause a significant variance between the budgeted and actual amount and requires Management's ongoing attention
- Although Management's approach in forecasting specific revenue and expense items is sound, Section 4.4 explains why a significant difference has been observed between Management's Amended Budget and actual results

3.5.2 Review of SY2014/15 and SY2015/16 forecasts

The following table summarizes VBE's most recent forecast for SY2014/15:

VBE forecast for SY2014/15	
Item	SY2014/15
Forecasted surplus (deficit) including transfers to/from other funds	(23.6)
Prior years' operating surplus allocation (both appropriated and not appropriated)	23.7
Employee unfunded benefits	(0.1)
Adjusted Preliminary Budget	0.0
Q1 2015 financial report (no summer school, increased enrolment count)	(1.8)
Salaries and sick time savings, offset by lay-offs	5.4
Transportation	0.2
Total operating adjustments	3.7
Financial upgrade	(1.0)
Employee benefits withdrawal for over-contribution	3.9
Investment revenues and other	0.7
Other	0.4
Total other items	4.0
Amended Budget surplus (est.)	7.7
Source: VBE Management and budget documents	

Based on our discussion with Management, the expected budget surplus of \$7.7M is their best estimate of the operating results of SY2014/15. As detailed above, the surplus includes \$23.7M of prior year appropriated surpluses.

SY2015/16 forecast

The SY2015/16 forecast is based on adjustments to the SY2014/15 zero based budget. Adjustments are made based on actual results observed during SY2014/15, expected enrolment changes, prior year ongoing revenue and savings, additional MEd grants, increases in operations not funded by MEd and other items.

The table below summarizes the adjustments to the zero based budget to determine the projected surplus for SY2015/16:

VBE forecast for SY2015/16	
Item	SY2015/16
Prior year ongoing revenue and expenses, realized subsequent to the zero budget	3.4
MEd grants and shared services	2.1
Decline in enrolment	(3.3)
Holdback funds	1.0
Total revenue adjustments	3.2
Prior years' operating surpluses appropriated to reduce the deficit	13.5
SY2014/15 net one-time revenue and (expense) adjustments (including operating surpluses appropriated to reduce the deficit and transfers from the Local Capital Reserve (LCR))	(18.8)
Adjustment for prior year surpluses and one-time items	(5.3)
Salary and employee benefits increases	(2.1)
Inflation, other	(0.7)
MEd directed admin savings	(2.7)
Sale & leaseback of capital assets, reduction in furniture and equipment budget	3.5
Reduction in maintenance trades	0.5
Educational (band & strings, international education, adult education, K-12 teaching allocation)	2.2
Employee benefits surplus as a result of prior year over contributions	2.0
Learning and technology infrastructure	(0.6)
Total operating adjustments	2.1
Projected surplus	0.0

Source: VBE Management and budget documents

The SY2015/16 year is forecasted to balance after adjustment for changes in prior year operating results and the appropriation of surpluses in the prior year (as a deduction) and the current year

In section 4.4 we explain why historically significant variances exist between the Board's forecasts and actual results. While the table above demonstrates a balanced budget forecast for SY2015/16, based on historical experience and the analysis detailed in section 4.4, a material actual surplus is likely.

Included in the revenue adjustments to balance the budget in SY2015/16 are holdback funds and an adjustment has been made for a transfer from the LCR in SY2014/15, both of which are described in greater detail below. VBE's forecasts also consider the funding protection provided by the Ministry, as explained below.

Holdback release

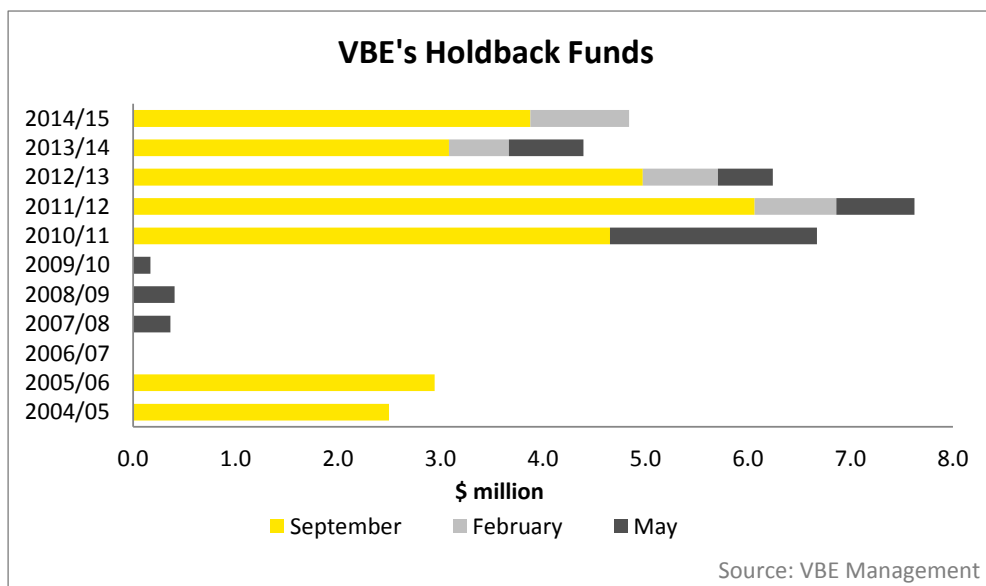
The holdback is a portion of MEd's operating grant block that is not allocated and is held in contingency by the MEd until the revised and final enrolment figures for the school year are determined.

The holdback provides funding for unanticipated enrolment that occurs during the school year beyond what was estimated before the school year began. The size of the holdback is established when the estimated operating grants are determined.

The holdback is allocated based on additional enrolment reported in the July, September, February and May of the school year. The holdback payments are generally announced in September, February and May of the school year and payments are made by MEd to the school districts, including VBE, in December, April and June.

The graph below illustrates the holdback funds announced from the Provincial holdback over the past 10 years:

Chart 3.3 - VBE's Holdback Funds



Holdback Funds have increased since SY2009/10

We observed that the size of the Holdback funds has increased significantly since SY2009/10, which the Ministry confirms is to reflect greater uncertainty in enrolment across the Province. A portion of the Holdback Funds are received by the VBE too late into the school year to be budgeted for or applied to the current school year's expenses. The late payment of the Holdback Funds contributes to the difference between VBE's budgets and actual operating results. As discussed in section 4.4, in SY2013/14, the Amended Budget provided for the receipt of holdback funds totaling \$0.7M, whereas the total holdback funds received by VBE were \$4.4M in that school year.

VBE asserts, with merit, that the uncertainty of the receipt of the holdback funds causes it to conservatively estimate MEd funding. In addition, the late announcement of incremental and available funding (February and May of the school year in advance of the June year-end) and inquiries by the Ministry if VBE budget to receive more than 50% of the expected Holdback Funds causes a portion of such funding to be deferred (Internally Appropriated) to the following school year.

Recommendation 3.4

MEd undertake a review of the holdback process to:

- 1) mitigate the size of the holdback; and
- 2) accelerate the release of the holdback funds.

This recommendation will benefit school districts province-wide

Local Capital Reserve ("LCR")

The LCR is an account that includes proceeds from the sale and lease of Board owned property and previous years' operating surpluses transferred to the reserve. It also includes lease revenue. LCR funds can be used for future years' operating budgets and funding capital initiatives not funded by MEd. In SY2014/15, VBE transferred \$2.5M to the operating fund to fund operations.

The forecast balance of the LCR is as follow:

Forecasted LCR balance				
School year	SY2014/ 15	SY2015/ 16	SY2016/ 17	SY2017/ 18
Opening Balance, July 1(M)	3.99	(0.46)	(2.09)	(1.53)
Revenue	1.17	1.17	1.17	1.17
Expenditure	(0.27)	(0.27)	(0.27)	(0.27)
Transferred to Operating Fund	(2.48)			
Relocation and other	(1.27)			
SIS implementation	(0.60)	(0.73)	(0.34)	
International village	(1.00)	(1.80)		
Closing balance, 30 June (M)	(0.46)	(2.09)	(1.53)	(0.63)

Source: VBE Management and budget documents

*LCR in deficit
until
SY2017/18*

The LCR is expected to have a negative balance until SY2017/18 and will not be available to fund operating deficits in the operating fund.

SY2016/17 and SY2017/18 forecast

We have not reviewed the financial forecast for SY2016/17 and SY2017/18 as such forecasts are highly preliminary, based on historical findings that deviate materially from the Amended Budget.

3.5.3 Strategies to balance the multi-year budgets

The Board currently lacks strategies to address the forecasted deficits for SY2016/17 and SY2017/18. Historically, the Board primarily balanced budgets through one-off cost savings and/or revenue opportunities.

Finding 3.6: The Strategic Plan does not contain a long-term financial plan to guide the Board in managing budget priorities

VBE's strategies to balance multi-year budgets:

- ▶ With declining enrolment, operating shortfalls are mostly dealt with through one-off items such as the sale and leaseback of assets, and the withdrawals from the LCR and employee benefits plan
- ▶ Very limited strategies have been explored to balance the forecasted deficits after SY2015/16

Recommendation 3.5

The Board prepare a three-year financial forecast to allow for long-term decision making and the assessment of various options to maintain a balanced budget in keeping with VBE's strategic priorities.

4. Accumulated surpluses and deficits

4. Accumulated surpluses and deficits

4.1 Introduction

4.1.1 History of forecasted deficits and actual surpluses

Based on our review of the past 10 operating years, significant differences have existed between the budgeted deficits and actual operating surpluses since SY2007/08. In addition, the difference has been increasing annually from approximately \$8.8M in SY2010/11 to \$18.3M in SY2013/14. Refer to chart 4.1.

4.1.2 Accumulated surplus

The accumulated surplus can be described as VBE's net economic resources and it represents that amount by which all operating assets (financial and non-financial) exceed all operating liabilities. The accumulated surplus is adjusted annually by, *inter alia*, the amount the prior years' revenues differ from expenditures (positively or negatively). The accumulated surplus is recorded in the financial statements, and described further herein.

At June 30 2014, the Accumulated Surplus was \$28.4M and is calculated as follows:

Accumulated Surplus	
	SY2013/14
Accumulated Surplus (per Financial Statements)	143.8
Capital Fund Balance	(115.4)
Accumulated Surplus operating	28.4
Comprised of:	
Prior year appropriated surpluses	12.4
Unrestricted operating surplus	5.8
Internally appropriated funds	11.3
Total surplus, gross	29.5
Unfunded accrued employee benefits	(1.1)
Accumulated Surplus	28.4

Source: VBE's Amended Budget and Financial Statements

The Accumulated Surplus has increased from \$12.9M in SY2010/11 to \$28.4M in SY2013/14.

Because the Accumulated Surplus has a positive balance of \$28.4M, it indicates VBE has net resources (cash and non-cash) that can be used to provide future services. The net resources in the Accumulated Surplus can be appropriated (referred to as "restricted" in VBE's financial statements) by the Board for a specific purpose. "Appropriated" in this context means the surplus has been set aside, at the Board's discretion, for a specific purpose.

Internal appropriations are imposed by a resolution of the Board. Previous decisions to internally restrict funds can be recalled by the Board and funds can be re-allocated for a different purpose.

4.2 Scope and approach

4.2.1 Work stream scope and objectives

The Surpluses and Deficits review included the past 10 years of operating results and reviewed the recent history of differences between deficit budgets and actual operating surpluses. The review focussed on the following two objectives:

Objective I: Review the ten year history of deficit forecasts versus accumulated surplus and balances at fiscal year-end

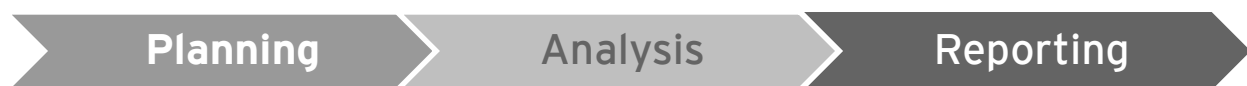
Objective II: Review the Board's plans for the use of the accumulated surplus reported at 30 June 2014, and forecasted for 30 June 2015

4.2.2 Out of scope

The areas below were out of scope of the review:

- ▶ School level variance analysis: The team did not assess the variance between budgets and actual operating results for each school
- ▶ Management reporting of variances to the Board: See the work done by the Governance work stream in Section 7.

4.2.3 Methodology and approach



We conducted our review in three phases: planning, analysis, and reporting.

Planning: Our planning was similar to the budget development and forecasting review as discussed in Section 3.

We developed the following assessment criteria for the work stream:

Assessment Criteria	
Area of Focus	Description of Criteria
Contributing factors to historical forecasted deficits compared to actual surplus	The causes of the misalignments between the budgets and the actual operating results
Reasonability of the accumulated surplus	The reasonability of the accumulated surplus and forecasted use of the surplus

Analysis: Our analysis was similar to the budget development and forecasting review as discussed in Section 3. In addition, the team performed the following procedure:

- ▶ **Benchmarking:** Documentation and financial data of comparable districts. Interviews were conducted with management of comparable districts. Please refer to Appendix A and B.

Reporting: The Reporting was similar to the budget development and forecasting review as discussed in Section 3.

In the pages that follow, key findings and recommendations are presented for:

- ▶ The 10-year history of deficit forecasts versus accumulated surplus and balances at fiscal year-end; and
- ▶ The use of the Accumulated Surplus reported at June 30 2014, and forecasted for June 30 2015.

4.3 Summary findings and recommendations by ministry objective

The following table details the most pertinent findings and recommendations that respond to the Ministerial Objectives:

Objective:	Review the ten year history of deficit forecasts versus accumulated surpluses and balances at fiscal year-end	Section
Current state findings:	<p>Significant differences exist between the Board's forecasted deficits in the Amended Budget and the actual surpluses, increasing over the years from \$8.8M in SY2010/11 to \$18.3M in SY2013/14</p> <p>Accumulated Surplus is increasing, requiring the Board and VSD management's attention to stay within a reasonable range. \$28.4M at end of SY2013/14. Increase in Accumulated Surplus consistent with other school districts since 2009/10. Accumulated Surplus is anticipated to be \$22.4M at end of SY2014/15</p>	4.4
	<p>Net Accumulated Surplus is outside the range of reasonableness: Balance is at 3.7% of operating expenses, outside a reasonable range of 2% to 3%. Balance anticipated to be 2.8% of operating expenses at end of SY2014/15. This is above a reasonable range and requires the Board's attention</p>	4.4.3
Top two recommendations	<p>The Board critically review the Amended Budget prior to approval to ensure accuracy of the forecasting, and particularly to account for the deferment of expenses to the next school year prior to the finalization of the Amended Budget</p> <p>VBE estimate the Internally Appropriated Expenses not expected to be spent prior to finalizing the Amended Budget to reduce the difference between the budget and actual</p>	4.4
	<p>The Board should determine appropriate threshold targets for Net Accumulated Surpluses. EY recommends 2% to 3% of operating expenses is reasonable</p>	4.4.3

4.4 Review of historical budgeted deficits and actual surpluses and the effect on the Accumulated Surplus

A comparison of the past 10 years of budgets to actual results indicates VBE over-estimated the projected operating deficit significantly over the period.

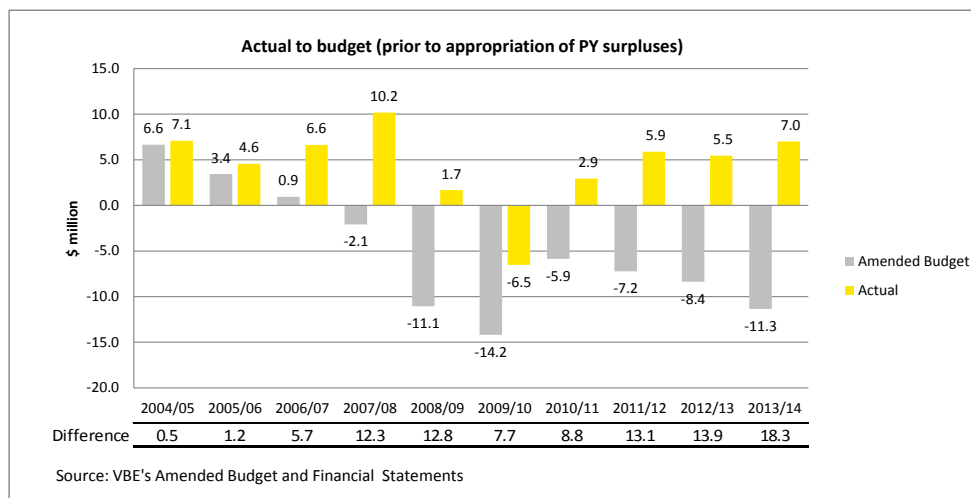
The graph below illustrates the difference between the budget and actual operating results. The budget figures are based on the Amended Budget, prior to the allocation of prior year surpluses to balance the budget, to promote comparability to the actual results.

The following is the reconciliation of the Amended Budget provided in Section 3.4.1.1 and below:

Reconciliation of the Amended Budget provided in Section 3.4.1.1				
	SY2010/11	SY2011/12	SY2012/13	SY2013/14
Amended Budget (Section 3.4.1.1)	4.1	5.6	9.3	11.1
Prior year appropriated surpluses	10.0	12.8	17.7	22.4
Amended Budget (excluding PY surpluses)	(5.9)	(7.2)	(8.4)	(11.3)

Source: VBE's Amended Budget and Financial Statements

Chart 4.1 - Actual to budget (prior to appropriation of PY surpluses)



VBE over-estimated the operating deficit significantly over the years, from \$12.3M in SY2007/08 to \$18.3M in SY2013/14

Since SY2007/08, significant differences exist between the budgeted and actual operating deficit/surplus. (As indicated at Appendix D we observed a similar trend at other school districts).

The differences between the budgets and actual operations results primarily from the following factors: holdback allocation, average teachers' salary, benefits surplus withdrawals, differences in interfund transfers, and strike savings, as summarized below:

Summary of differences between VBE's budget and actual results				
	SY2010/11	SY2011/12	SY2012/13	SY2013/14
Difference between budgeted operating deficit and actual surplus (M)	8.8	13.1	13.9	18.3
Holdback allocation received after budget compilation	3.7	5.5	1.5	3.7
Average teachers' salary, TOC usage, Wellness program	3.2	2.6	5.1	4.4
Benefits surplus withdrawal, premiums holidays and reduction	0.9	0.7	2.9	3.8
Strike and job action savings		3.4		3.4
Adult education savings			0.8	1.4
Other	1.0	0.9	3.6	3.0
Total variance	8.8	13.1	13.9	18.3
Source: VBE's Amended Budget and Financial Statements				

The difference between the actual Services and Supplies, a subset of the above described variances, compared to the Amended Budget is summarized below. The table below illustrates VBE consistently overestimates Services and Supplies over the years by approximately 13% in SY2010/11 to 19% in SY2013/14. A material amount of the difference is related to not recognizing that not all Internally Appropriated Expenses would be incurred during the year.

Summary of differences between VBE's budget and actual Services and Supplies			
	Amended Budget	Audited Financial Statements (Actual)	Difference
SY2010/11	39.6	34.7	(5.0)
SY2011/12	40.1	34.7	(5.4)
SY2012/13	40.3	33.5	(6.7)
SY2013/14	41.4	33.6	(7.8)

History of forecasted deficits vs actual surpluses

- ▶ The difference is caused by unexpected revenue (holdback funds, benefits surplus, and strike savings) and lower expenses (teachers' average salaries). The difference is also caused by expenses that were budgeted for a specific purpose ("Internally Appropriated Expenses") but were not actually incurred for the full budgeted expenses
- ▶ As seen in Section 3.5.2 holdback funds have increased significantly since SY2010/11.

Holdback allocation

Holdback allocations were discussed in detail in section 3.5.2. As noted therein, the lateness of the announcement of the holdback amounts by the MEd has caused VBE to defer a portion of such holdback amount to the subsequent school year (which commences on July 1).

Average teachers' salary, TOC usage, Wellness program

Average teachers' salary has been lower than projected, due to increased levels of retirements, the taking of early retirement incentives by teachers, and replacement of long-serving teachers with younger teachers at lower teacher salary bands. VBE anticipates the trend of replacing more expensive higher seniority teachers with lower salary teachers will start to reverse in the near future.

Teacher on call (TOC) usage has increased. More TOCs were filling contract positions, which were noted by VBE as a trend that has resulted in lower salary costs. However, with the most recent contract change, TOCs are paid the same amount from start date, and the historical cost advantage trending is no longer applicable.

In SY2013/14 an analysis of VBE district's patterns of attendance and sick leave usage revealed higher than average absenteeism and sick leave usage. This created an opportunity to gain cost savings by supporting employees. Through the development of a comprehensive wellness and attendance support program, VBE continues to save sick leave costs.

Benefits surplus withdrawal, premiums holidays

VBE continues to communicate with their benefits provider to review rates considering benefits surpluses have been rising. VBE has been cash advantaged as they have been permitted, to an extent, to draw down certain surpluses as a means of premium payments; thereby, creating premium payment holidays.

A number of the employee benefit plans were over-contributed primarily since SY2010/11 and the Board adopted a recommendation of a lump sum withdrawal of excess benefit contributions since then.

Excess contributions were anticipated to accumulate further, providing an opportunity to take a further premium holiday or lump sum withdrawal. Given the trend over the last few years to accumulate over-contributions in these benefit plans, the contribution rate increases for SY2015/16 have been lowered to avoid large over-contributions.

Strike and job action savings

In SY2011/12 VBE realized job action savings and in SY2013/14 MEd allowed the school district to keep 20% of the savings related to the teacher's strike in SY2013/14.

Included in these differences are also the unspent amounts/ending balances of the Internally Appropriated Expenses, discussed below.

Finding 4.1: The difference between the Board's final budget forecasted deficit as reflected in the Amended Budget and the actual surplus realized is unreasonably high. This difference has increased over the years from \$8.8M in SY2010/11 to \$18.3M in SY2013/14

Recommendation 4.1

The Board critically review the Amended Budget prior to approval to ensure accuracy of the forecasting, and particularly to account for the deferment of expenses to the next school year prior to the finalization of the Amended Budget

4.4.1 Recent announcement

In May 2015, the Board approved the VBE borrowing \$1.6M from the Bank of Montreal to fund a new school at the International Village in Vancouver. Given the history of actual results exceeding budget, it is expected that SY2014/15 will achieve positive variances against its budgeted operating expenses and therefore the surplus could exceed the current forecast budget of \$7.7M (see section 3.4.1.4). This incremental operating surplus would be an alternative to the Bank of Montreal financing and/or allow for the accelerated retirement of this third party financing.

4.4.2 Impact on Accumulated Surplus

There are two primary factors that affect the accumulated surplus, these being:

- 1) Internally Appropriated Expenses; and
- 2) Operating Surpluses.

Internally Appropriated Expenses

There are three streams of Internally Appropriated Expenses:

Funds restricted due to the nature of the constraints on the funds	Contingencies or unusual expenses identified by Senior Management	Funds restricted because operations span the school year
<ul style="list-style-type: none"> ▶ Education Plan funds ▶ Professional-Development (Pro-D) funds ▶ Aboriginal Education ▶ Grants received from donors 	<ul style="list-style-type: none"> ▶ BCeSIS implementation ▶ Anticipated severance 	<ul style="list-style-type: none"> ▶ Projects in Progress ▶ Department/Program operating surplus requested to be carried forward ▶ Purchase orders or expenditures that have been ordered, but not yet arrived/title transferred
Based on EY's review, these appropriations are reasonable as it is based on external limitations on the use of the funds	These appropriations are reasonable as it relates to identified contingencies and expenses expected by Senior Management to be incurred in the following year	<p>The project in progress and program surplus request are reasonable to appropriate as the funds relate to identified projects</p> <p>Purchase orders likely do not require appropriation as the amount is not payable yet. In SY2013/14 the internally Appropriated Expenses related to purchase orders was \$1.8M</p>

Surpluses restricted to provide funding to meet future year contractual and grant condition commitments:

- ▶ During the school year, VBE receives grants and funding for specific purposes. To the degree that not all the funds are spent, the balance is restricted to be used for future years. For example, the Ministry has been providing \$1M annually for the Education Plan. The purpose of this funding is to help districts implement initiatives related to the B.C. Education Plan with a focus on support for early learning and the development of trades' skills. As VBE has been spending less than \$1M per year, the remainder of the funds is restricted to be used in future years for the specific purpose stated.

Surpluses restricted to provide for contingencies:

- ▶ Senior Management identifies contingencies, for example, anticipated severance and unusual expenses, and restrict funds to cover the expected future expenses.

Surpluses restricted for one-time expenses for projects and programs that span multiple school years; including:

- ▶ Projects in progress at the end of the school year include projects such as technology, hardware upgrades and business systems upgrades. Funds are restricted to enable VBE to complete the programs the following year. Funds are also restricted for purchase orders for goods ordered but not received yet. Department/program operating surpluses requested to be carried forward, includes: special education projects, social responsibility (Mind-Up), etc.

In any given year, when actual expenses incurred during the school year vary from the funds that were received to fund such expenses, a positive or negative variance exists. This variance impacts on the accumulated surplus as follows:

Variance	Expenses	Impact on accumulated surplus
Positive	Actual expenses are less than the budget	Increase
Negative	Actual expenses are more than the budget	Decrease

In case of positive variances, surplus funds increase the accumulated surplus and are captured and reported on the Balance Sheet of VBE. As described in Section 4.1.2 the accumulated surplus at 30 June 2014 was \$28.4M.

It must be noted that the accumulation of these surpluses over the school years is not entirely available to defray the cash funding demands for future periods as the expenses were budgeted for a specific purpose and the deferred expenses that gave rise to the surplus will be incurred in a future period and require funding from the accumulated surplus to pay that obligation.

Therefore, the Board internally appropriates the surplus funds to pay for the expenses when they are incurred in future years. We have observed comparable restriction practices by the Surrey School Board.

This concept of Internally Appropriated Expenses is the procedure adopted by VBE, both as a matter of policy and in accordance with prescribed accounting rules (where applicable).

Operating Surpluses

Operating surpluses result from revenue received from MEd in a particular school year that exceeds the expenses actually incurred. In the context of a for-profit-enterprise this would be equivalent to a “net profit”.

EY was advised by VBE that operating surpluses typically arise as a result of the following:

- ▶ holdback funds are received late in a school year, after the Amended Budget was finalized, and such money was not anticipated;
- ▶ average teacher salary is lower than expected and savings from the Wellness program;
- ▶ benefits surplus withdrawal, premiums holidays and reduction; and
- ▶ strike and job action savings.

Finding 4.2: A significant difference exists between the forecasted deficits (before appropriation of prior year surpluses) and the actual results. The difference is partially caused by unexpected revenue (holdback funds, benefits surplus, and strike savings) and lower expenses (teachers' average salaries). The difference is also caused by expenses that were budgeted for a specific purpose but were not actually incurred for the full budgeted amount in the designated school year

Recommendation 4.2

Consistent with treatment by the Surrey School District, the Board to estimate the in-year Internally Appropriated Expenses not expected to be spent prior to approving the Amended Budget to reduce the difference between the budget and actual operations

4.4.3 Accumulated Surplus and the restriction process

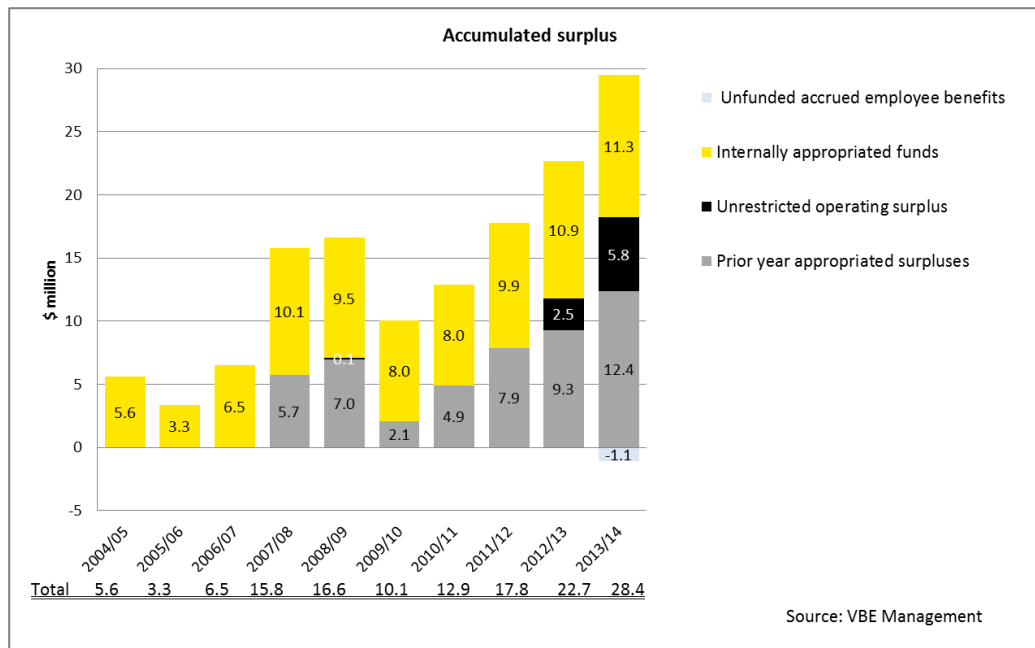
As explained above, Internal Appropriated Expenses and Operating Surpluses accumulate in the Accumulated Surplus balance until:

- ▶ The Internally Appropriated Expenses are incurred; and
- ▶ The Operating Surpluses are restricted to offset an operating deficit in a future school year.

These funds are internally appropriated, defined by VBE as 'internally restricted', in various categories.

The graph below summarizes the internally appropriated surpluses, unrestricted operating surpluses and the internally appropriated funds. Other than for SY2013/14, we excluded the liability related to unfunded accrued employee benefits.

Chart 4.2 - Accumulated surplus



In Section 4.4 we discuss the historical operating surpluses which contributed to the growth of the Accumulated Surplus

The foregoing demonstrates the increase in Accumulated Surplus was primarily related to an increase in the operating surpluses since SY2009/10. As discussed in Section 4.4.3 the net accumulated surplus balance (Accumulated Surplus excluding internally appropriated funds and unfunded accrued employee benefits) is above a reasonable range and requires ongoing monitoring.

4.4.4 Review of Accumulated Surplus

For comparability purposes with other school districts we have adjusted the accumulated surplus to exclude the unfunded employee benefits as follows:

Accumulated surplus	
	SY2013/14
Accumulated surplus operating	28.4
Unfunded accrued employee benefits	(1.1)
Accumulated surplus, adjusted	29.5

Source: VBE's Amended Budget and Financial Statements

To consider the reasonableness of VBE's Accumulated Surplus balance, we compared the surplus to other school districts including:

- ▶ Surrey School District (SSD)
- ▶ Central Okanagan School District (COSD)

The graphs below illustrate the trends in the Accumulated Surplus balances of VBE and two comparable school districts, including the transfers to the LCR each year. The LCR transfers were included as those funds are also available to be applied to future years' deficits:

Chart 4.3 - VBE'S Accumulated Surplus

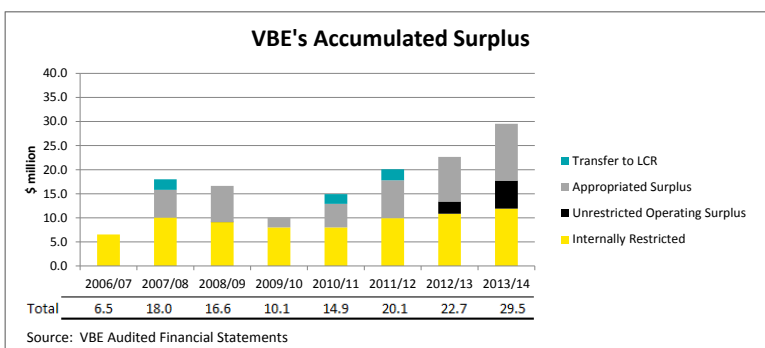


Chart 4.4 - Surrey School District's Accumulated Surplus

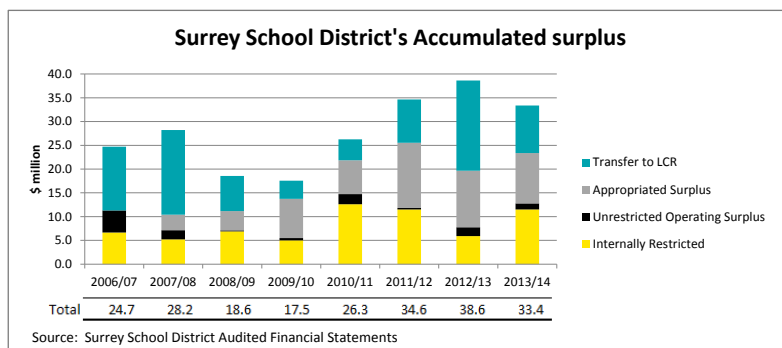
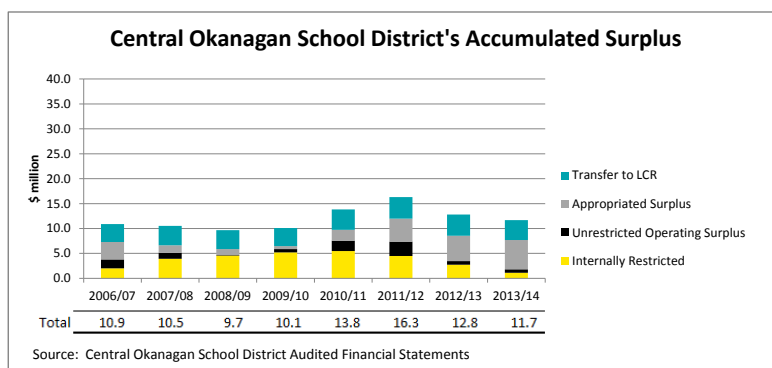


Chart 4.5 - Central Okanagan School District's Accumulated Surplus



We observed most school districts have an upward trend in the Accumulated Surplus between SY2009/10 to SY2012/13, although VBE's surplus continued to increase while the other districts' decreased in SY2013/14.

VBE Management explained the increase in the Accumulated Surplus as follows:

- ▶ The change in accounting rules per the Public Sector Accounting Board (PSAB) in SY2012/13, which required grant revenue to be recorded when received and not when the expenses were incurred, led to an increase in the Accumulated Surplus of approximately \$1M in Internally Appropriated Expense funding;
- ▶ Job action and the subsequent strike led to higher Pro-D (Professional development) balances for teachers starting from and after SY2011/12. This led to an increase in the Accumulated Surplus of approximately \$1M on Internally Appropriated Expenses funding;
- ▶ The introduction of the \$1M Education Plan grant per year in SY2012/13. The Board chose to expense the grant over a period of time, rather than in the year it is received. As such, the difference between the grant received and expenses is restricted in the Accumulated Surplus; and
- ▶ The increase in holdback funds (see section 3.5.2).

The table below summarizes the Accumulated Surplus in the context of operating expenses:

	SY2010/ 11	SY2011/ 12	SY2012/ 13	SY2013/ 14
VBE's operating expenses (M)	480	479	478	464
Accumulated Surplus Reported	10.3	16.4	21.5	28.4
% Accumulated Surplus Reported before Internal Restrictions	2.1%	3.4%	4.5%	6.1%
Less:				
Unfunded employee benefits	(2.5)	(1.4)	(1.2)	(1.1)
Internally Appropriated Expenses	8.0	9.9	10.9	11.3
Net Accumulated Surplus - available to fund future operations	4.9	7.9	11.8	18.2
% Net Accumulated Surplus available to fund future operations	1.0%	1.6%	2.5%	3.7%

Source: VBE's Amended Budget and Financial Statements

Maintaining a net accumulated surplus available to fund future operations provides for operational flexibility. A surplus of approximately 2% to 3% of expenses is considered reasonable. At 30 June 2014 VBE's net accumulated surplus is 3.7% of operating expenses.

Finding 4.3: Board attention is needed to address the Accumulated Surplus balance which is increasing, to stay within a reasonable range

Accumulated Surplus:

- ▶ VBE's Accumulated Surplus is reasonable when compared to other school district's (prior to these districts transfers of their operating surpluses to the LCR)
- ▶ As noted in the following Section, the Accumulated Surplus is expected to decrease in SY2014/15 by \$6.0M from \$28.4M to \$22.4M

Net accumulated surplus:

- ▶ The SY2013/14 balance is outside a reasonable range of 2% to 3% of expenses

Recommendation 4.3

The Board establish a guidance threshold target for Net Accumulated Surpluses. Such threshold target should be developed in conjunction with the preparation of the three year financial forecast (Recommendation 3.5)

EY is of the view that a threshold target for Net Accumulated Surpluses of 2% to 3% of VBE operating expenses would be reasonable

Recommendation 4.4

MEd establish guidance threshold targets for Net Accumulated Surpluses for all school districts including consideration of the LCR

4.5 Use of accumulated surplus

The table below estimates the accumulated surplus as at June 30 2015:

School year	SY2014/15
Revenue	467.8
Expenses	(483.4)
Budgeted operating deficit	(15.6)
Interfund transfers	(0.4)
Budget deficit, before appropriation of prior year surpluses	(16.0)
SY2013/14 Accumulated Surplus - Internally Appropriated Expenses	11.3
SY2013/14 Accumulated Surplus - PY Appropriated Surplus	12.4
Budget surplus	7.7
Remaining Accumulated Surplus SY2013/14	5.8
Internally Appropriated ending balances (est.)	10.0
Accumulated Surplus, before unfunded benefits	23.5
Unfunded employee benefits	(1.1)
Accumulated Surplus, closing balance (June 30 2015)	22.4

Source: VBE's Amended Budget and Financial Statements

VBE is estimating a reduction in the accumulated surplus of \$28.4M by approximately \$6M by 30 June 2015. This is primarily a result of the SY2014/15 operating deficit of \$16M (actual expenses higher than actual revenues), offset by the Internally Appropriated Expenses not incurred (estimated at \$10M). The average Internally Appropriated Expenses not incurred for the past four school years was on average approximately \$10M (the balance was higher for SY2013/14 (\$11.3M) because of the strike).

The table below estimates the net accumulated surplus at 30 June 2015 without the internally appropriated funds and adjusted for unfunded employee benefits, and the operating reserve as a percentage of operating expenses.

School year	SY2014/15
Accumulated Surplus, closing balance (June 30 2015)	22.4
Unfunded employee benefits	1.1
Internally appropriated (estimate)	(10.0)
Net Accumulated Surplus, closing balance (June 30 2015)	13.5
% of operating expenses	2.8%
Source: VBE's Amended Budget and Financial Statements	

VBE estimates its net accumulated surplus reserve at 2.8% of current year operating expenses, which remains at the high end of EY's reasonability spectrum.

The table below summarizes the use of the accumulated surplus for SY2014/15 (as approved by the Board):

School year	SY2014/ 15
Net Accumulated Surplus, closing balance (June 30 2015) est.	13.5
SY2015/16	13.5
SY2016/17	0
Source: VBE's Amended Budget and Financial Statements	

The Board has presently allocated the Net Accumulated Surplus to SY2015/16.

5. Administrative, support and overhead efficiencies

5. Administrative, support and overhead efficiencies

5.1 Introduction

5.1.1 The need for administrative, support and overhead efficiencies

The majority of BC school districts receive over 90% of their operating revenue funding from Provincial Grants provided by the Ministry of Education (MEd or the Ministry), the amounts of which are determined by a funding formula based on enrolment. As the per-pupil spend on education has been trending upwards, while enrolment has been on a decline, VBE needs to find methods to balance its budget, while still delivering quality education to its students. VBE can look on both sides to new revenue opportunities and cost efficiencies as a means to assist in balancing its budget.

5.2 Scope and approach

5.2.1 Work stream scope and objectives

The objective of this work stream was to identify opportunities to reduce administrative, support and overhead efficiencies, as well as identify opportunities to increase revenue. Within this scope, the work stream focussed on the following three objectives:

- ▶ Objective I - Provide the comparators and/or benchmarks to assess efficiency used by the district and recommend additional measures as appropriate
- ▶ Objective II - Identify opportunities to achieve administrative and support savings through efficiencies, shared services and overhead reductions, while protecting student instruction services
- ▶ Objective III - Identify opportunities to maximize school district revenue

MEd directed EY to give due consideration to previous reviews conducted in order to identify such opportunities and to avoid duplicating the efforts of these historical reviews. It was also directed that all opportunities should give consideration to the protection of student instruction services. The report is organized under: (1) opportunities to increase revenues; and (2) opportunities to achieve administrative and support savings. The comparators/benchmarks of Objective I are woven throughout these two objectives.

5.2.2 Out of scope

While Objective III directed EY to identify opportunities to increase revenues, we did not consider the requisite increase in costs associated with increasing revenues. Although the identification of opportunities to reduce salary and benefits costs was not part of the original scope of our review, MEd requested EY to identify variations in staffing levels between VBE and its peers, as a means of identifying additional cost savings.

5.2.3 Methodology and approach

A data-driven approach was followed to identify opportunities, including the use of comparators and/or benchmarks to assess efficiency. Our approach is summarized below:

- 1) Reviewed opportunities identified in previous reviews with comparable scope:
 - ▶ Report on the Vancouver School Board (School District 39) - Office of the Comptroller General, Ministry of Finance, June 2010
 - ▶ Vancouver School Board Resource Allocation Review, Final Report - PricewaterhouseCoopers LLP (PwC), March 2012
 - ▶ Vancouver School Board Resource Allocation Review 2015, Interim Report - PwC, April 2015
- 2) Collected cost and revenue data for all school districts in British Columbia for SY2013/14 and benchmarked both VBE's costs per pupil and revenues as a percentage of provincial grants provided by the Ministry of Education to:
 - ▶ Selected peers
 - i. School District No. 23 (Central Okanagan)
 - ii. School District No. 36 (Surrey)
 - iii. School District No. 38 (Richmond)
 - iv. School District No. 41 (Burnaby)
 - v. School District No. 43 (Coquitlam)
 - vi. School District No. 44 (North Vancouver)
 - vii. School District No. 45 (West Vancouver)
 - ▶ Lowest performing 25% of 60 BC school districts
 - ▶ Median performance of 60 BC school districts
 - ▶ Best performing 25% of 60 BC school districts
- 3) Identified potential opportunities through review of the top performers in BC, and practices of school districts in other jurisdictions (such as the Toronto District School Board), and opportunities identified in previous reviews of comparable scope
- 4) Discussed and validated identified opportunities with both VBE management and the Ministry of Education

As directed by the Ministry, EY relied upon PwC's Resource Allocation Review performed for VBE in 2015, to avoid duplicating effort. We have incorporated the initiatives as presented in PwC's Interim Report from: (1) 2012 Resource Allocation Review Recommendations, (2) Perspectives on 2015-2016 Management Proposal, and (3) Additional Initiatives for Consideration.

In the pages that follow, key findings and recommendations are presented for:

- ▶ Revenue opportunities; and
- ▶ Operating cost efficiencies.

5.3 Summary findings and recommendations by ministry objective

The following table details the most pertinent findings and recommendations that respond to the Ministerial Objectives:

Objective:	Provide the comparators and/or benchmarks to assess efficiency used by the district and recommend additional measures as appropriate	Section
Current state findings:	<p>Benchmarking was performed on 10 revenue sources and 9 expenditure categories against the 60 school districts in BC, with focus on VBE's peers of the following school districts: Central Okanagan, Surrey, Richmond, Burnaby, Coquitlam, North Vancouver, and West Vancouver</p> <p>From previous reviews, including by the Office of the Comptroller General, PwC and Deloitte, 6 recommendations implemented, 45 unique revenue, cost and strategic recommendations in progress, minimal progress, or not started from previous reports</p>	5.2
Top recommendation:	Ministry to work with school districts to improve the consistency of reporting revenues and expenses by program and function and should consider regularly benchmarking internal performance across school districts to support school districts with identification of opportunities to increase revenues and reduce costs	
Objective:	Identify opportunities to achieve administrative and support savings through efficiencies, shared services and overhead reductions while protecting student instruction services	Section

Objective:	Identify opportunities to achieve administrative and support savings through efficiencies, shared services and overhead reductions while protecting student instruction services	Section
Current state findings:	<p>VBE spend \$100 annually less per pupil than the next performing school district</p> <ul style="list-style-type: none"> ▶ VBE spend approximately half of the provincial average and spend \$100 annually less per pupil on total expenditure other than salaries and benefits, than the next highest performing school district <p>Lower student to support staff ratio for all staffing types</p> <ul style="list-style-type: none"> ▶ VBE has a lower student to support staff ratio for all staffing types serving regular enrolment when compared to Surrey School District. This includes department staff for Budget and Finance, Purchasing, HR, IT and Facilities <p>Annual potential financial benefits from aggressive cost and revenue initiatives in the range of up to \$35.5M</p>	5.5
Top recommendations:	<p>Implement remaining PwC initiatives</p> <ul style="list-style-type: none"> ▶ VBE to continue to implement the 16 remaining PwC identified cost saving initiatives <p>Progress cost efficiency recommendations</p> <ul style="list-style-type: none"> ▶ VBE to continue progressing the cost efficiencies as recommended in historical reports and management proposals, while continuing to explore opportunities to participate in future provincial shared service offerings <p>Address impact of Student to Support Staff ratios</p> <ul style="list-style-type: none"> ▶ Ahead of the next round of collective bargaining, VBE to consider the reason for the variation identified in student / support staff ratios between VBE and a subset of peer districts, as set out in the Comparative Staffing Levels Report 	5.5
Objective:	Identify opportunities to maximize school district revenue	Section
Current state findings:	<ul style="list-style-type: none"> ▶ VBE receives the highest absolute amount of \$30.4M in total non-MEd provincial grant revenue among BC school districts, but is a median performer in relative terms 	5.4

Objective:	Identify opportunities to maximize school district revenue	Section
Top recommendations:	<p>Extend Summer School Program</p> <ul style="list-style-type: none"> ▶ VBE's program capacity is dynamic, VBE to review opportunities to increase Summer School enrolment through provision of additional special interest courses and take advantage of the limited number of school districts offering Summer School programs <p>Market International Student Program to the East-side</p> <ul style="list-style-type: none"> ▶ VBE to continue to explore options to market underutilized schools in the East-side to international students <p>Business Development Team</p> <ul style="list-style-type: none"> ▶ VBE to conduct a cost : benefit analysis for re-employing a Business Development team responsible for sourcing additional revenue streams such as sponsorships and partnerships <p>Strategies to maximize rental and lease revenues</p> <ul style="list-style-type: none"> ▶ VBE to set strategies to increase rental and lease revenues, including reviewing space requirements against capacity and reallocating the extra space for rental to compatible tenants 	5.4

5.4 Revenue opportunities

5.4.1 Current revenue streams and historical initiatives

VBE receives over 90% of its revenue from MEd Provincial grant. The amount of this grant is determined by a provincial funding formula based on enrolment. It was therefore assumed that there was no opportunity for VBE to increase MEd Provincial grant revenue, and the review focused on opportunities to increase other revenue sources. To achieve the objective of identifying opportunities to maximize school district revenue, a review of the historical revenue initiatives identified in previous reviews with comparable scope was conducted. We then mapped the historical revenue initiatives to VBE's revenue streams. The following table presents VBE's revenue streams and the amended budget amount for each stream in SY2014/15. The table also distinguishes the revenue streams for which historical initiatives have been identified in previous reviews.

Table 5.1: VBE revenue streams		
Revenue stream	2014/15 amended budget (\$M)	Historical initiatives identified
Provincial Grants - Ministry of Education	434.5	
Offshore Tuition Fees	20.3	✓
Miscellaneous Income	3.7	✓
Rentals and Leases	4.4 ¹	✓
Investment Income	1.9	✓
Federal Grants	1.8	
Instructional Cafeteria	1.3	✓
Continuing Education	0.3	✓
Other Grants	0.2	
Provincial Grants - Other	0.1	
LEA/Direct Funding from First Nations	0.0	
Summer School Fees	0.0	
	\$468.5	

Source: VBE Amended Annual Budget, June 30, 2015

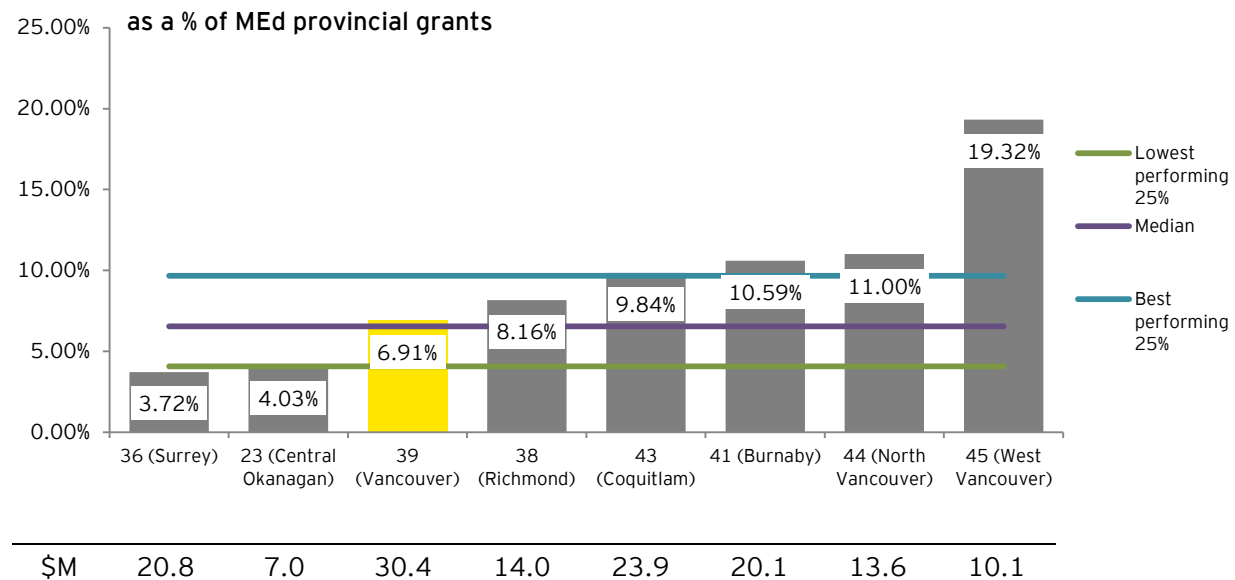
¹ Includes \$0.9M in rental and lease revenue flowing into Local Capital

Based on our analysis of the previous reviews, historical initiatives were identified for all of the material revenue streams not determined by the provincial funding formula, with the exception of Federal grants.

5.4.2 Non - Provincial grant (MEd) revenue

As outlined in the table above, the majority of VBE's revenues are derived from MEd provincial grants, determined by the provincial funding formula. The chart below compares VBE's total revenues from sources other than MEd provincial grants as a percentage of total MEd provincial grants, with its peers.

SY2013/14 Benchmarking



Source: Ministry of Education

Finding 5.1

VBE receives the highest absolute amount of total non-MEd provincial grant revenue, but is a median performer in relative terms. A number of VBE's peers, including North Vancouver, West Vancouver and Burnaby, receive a larger portion of their total revenues from sources other than MEd provincial grants.

As indicated in Table 5.1 above, there are 11 categories of revenue received by school districts in BC other than MEd provincial grants. Analysis of each of these revenue streams indicates that in a number of cases, VBE is performing in the top quartile, while in other cases VBE is performing below the top quartile. The benchmarking analysis suggests that if VBE were to be performing at top quartile in all areas, the net impact would be an increase in revenues of \$12M. However, it should be observed that a significant part of the gap is accounted for by revenue streams for which it is assumed that VBE has limited, or no ability to adjust, including First Nations Funding.

Recommendation 5.1

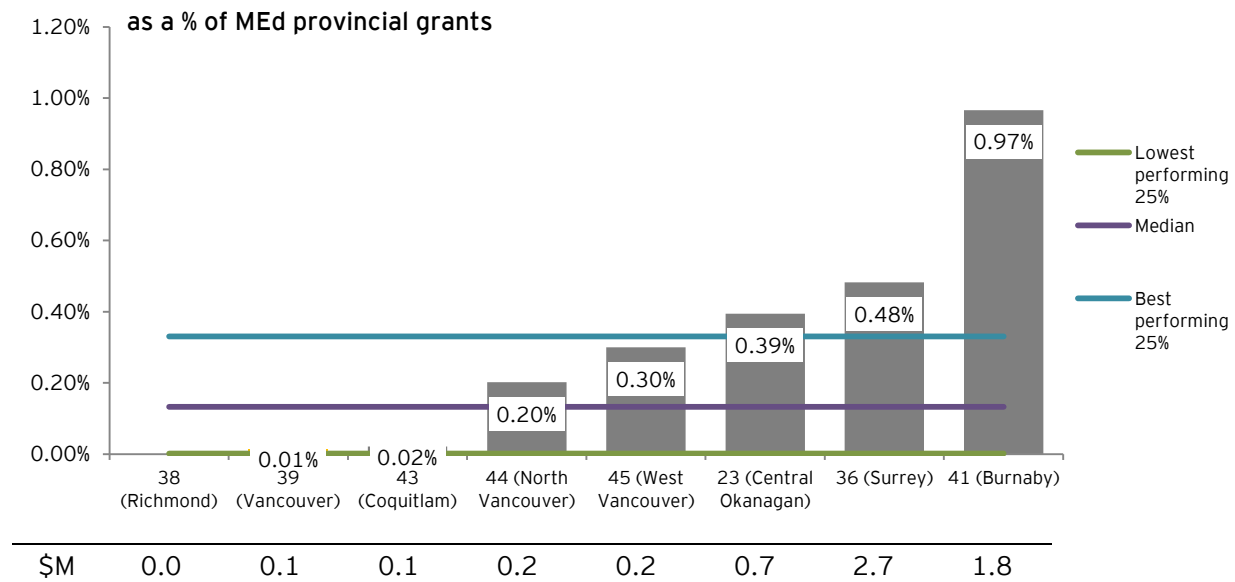
Ministry work with school districts to improve the consistency of reporting revenues and expenses by program and function and should consider regularly benchmarking internal performance across school districts to support school districts with identification of opportunities to increase revenues.

The following analysis provides more detailed benchmarking for each of the revenue streams where a material variation was observed between VBE's performance and its peers, and where there may be opportunities to increase revenues.

5.4.3 Provincial grants - other

The following chart presents the benchmarking of amounts received from other Provincial Ministries as a percentage of Provincial Grants provided by the Ministry of Education.

SY2013/14 Benchmarking



Source: Ministry of Education

Finding 5.2

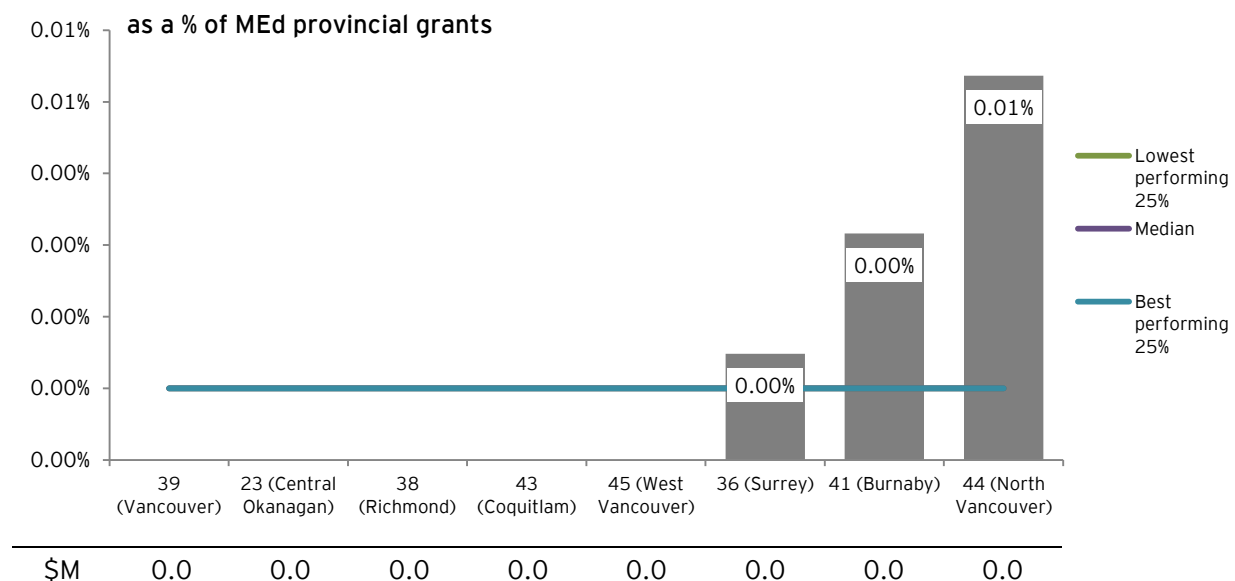
VBE received a \$0.06M grant in SY2013/2014 from the Ministry of Children and Family Development for the Pinnacle program, dedicated to the education of troubled youth. VBE projected slight growth in provincial grants from other Ministries, budgeting \$0.07M for SY2014/15 and SY2015/16. When provincial grants from other Ministries are taken as a percentage of MEd provincial grants, VBE is lowest among peer districts at 0.01%, and 31st percentile among all BC districts.

The benchmarking suggests that if VBE were to achieve top quartile performance, revenues could be increased by \$1.4M. Further investigation of revenues available to the school districts from Provincial Ministries would be required by VBE in order to identify specific opportunities.

5.4.4 Federal grants

The following chart presents the benchmarking of Federal source revenue, including support and special project grants provided by the Federal Government for incremental cost of programs.

SY2013/14 Benchmarking



Source: Ministry of Education

Finding 5.3

VBE received no Federal grants to their operating fund in SY2013/14. Additionally, most BC school districts received very little or no Federal grants to their operating fund, as grants provided by the Federal Government are often special purpose grants with restrictions on use, and recorded in the Special Purpose Fund.

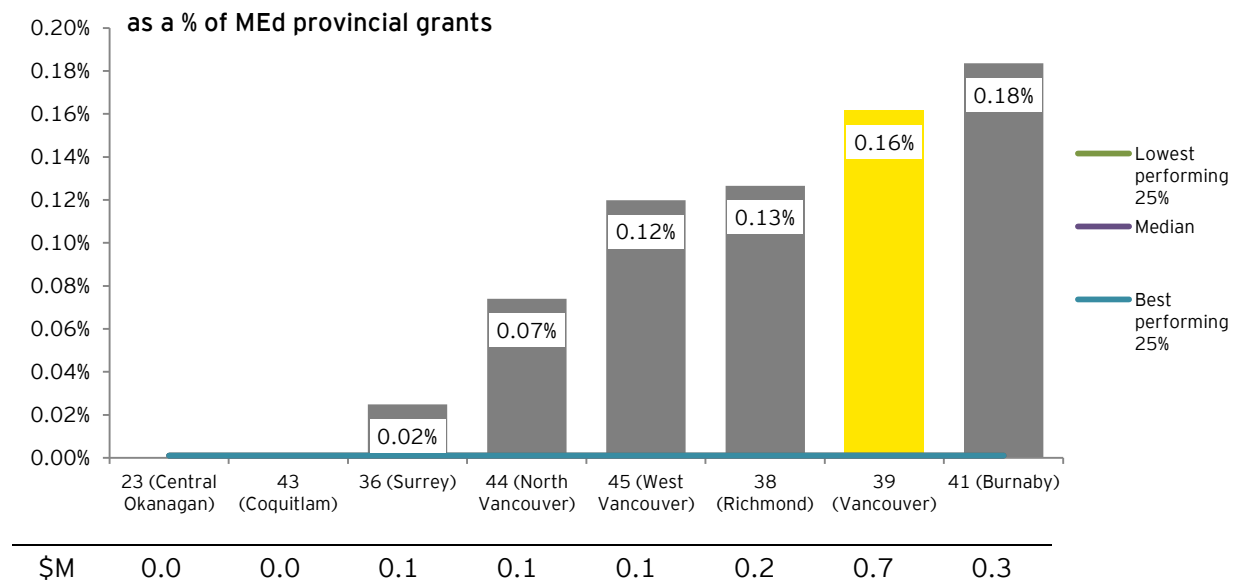
In SY2014/15, VBE will be receiving Federal grants for the Settlement Workers in Schools (SWIS) and New Immigrant programs directly from the Federal Government, which will be reported under Federal grants in the operating fund. VBE has budgeted to receive \$1.8M in Federal grants for SY2014/15.

Based on the above benchmarking, no opportunity was identified to materially increase this revenue source.

5.4.5 Tuition - summer school fees

The following chart presents the benchmarking of student fees received for the Summer School Program.

SY2013/14 Benchmarking



Source: Ministry of Education

Finding 5.4

VBE is among the top districts in receiving Summer School Fees, receiving \$0.7M, or 0.16% when taken as a percentage of Provincial Grants provided by the Ministry in SY2013/14, and is expecting to generate \$0.6M in revenues in SY2015/16. However, only 13 out of 60 school districts in BC received revenues from Summer School Fees in SY2013/14.

VBE's summer school program consists of courses funded by the Ministry, as well as a small portion of non-funded special interest courses. The program capacity is able to expand and contract based on registration demand, allowing the program to optimize capacity and revenue generation.

The benchmarking suggests that if VBE were to achieve the level of Burnaby, the top performing peer (increase of 0.02%), revenues could be increased by \$0.1M. If VBE were to materially increase capacity and generate additional demand, there may be the potential opportunity to achieve a level higher than this leading benchmark.

Recommendation 5.2

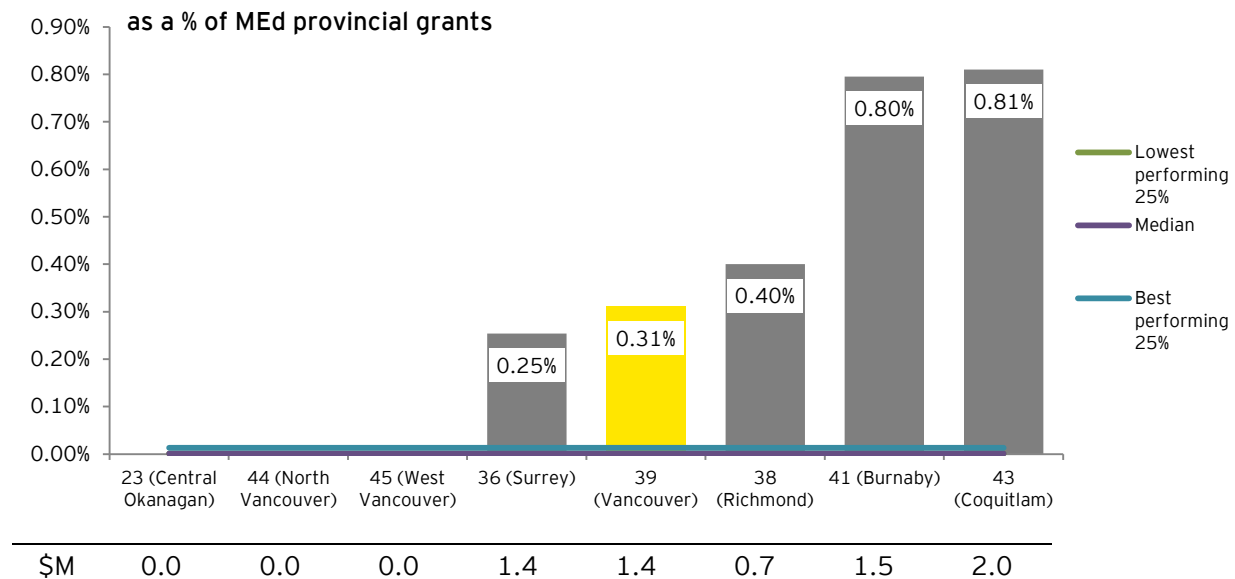
As VBE's program capacity is dynamic, VBE should explore opportunities to increase Summer School enrolment by:

- ▶ Offering specialized interest courses not readily available in other districts to draw in more students from inside and outside of the district, increasing provincially funded and tuition-based enrolment; and
- ▶ Taking advantage of the limited number of school districts offering Summer School programs through increased marketing of VBE's Summer School program to students in these districts.

5.4.6 Tuition - continuing education

The following chart presents the benchmarking of fees received from courses offered in the Continuing Education and Adult Education Programs.

SY2013/14 Benchmarking



Source: Ministry of Education

Finding 5.5

VBE received \$1.4M in SY2013/14, receiving a higher portion of revenues from this source than other districts in BC, falling into the top quartile with its peers.

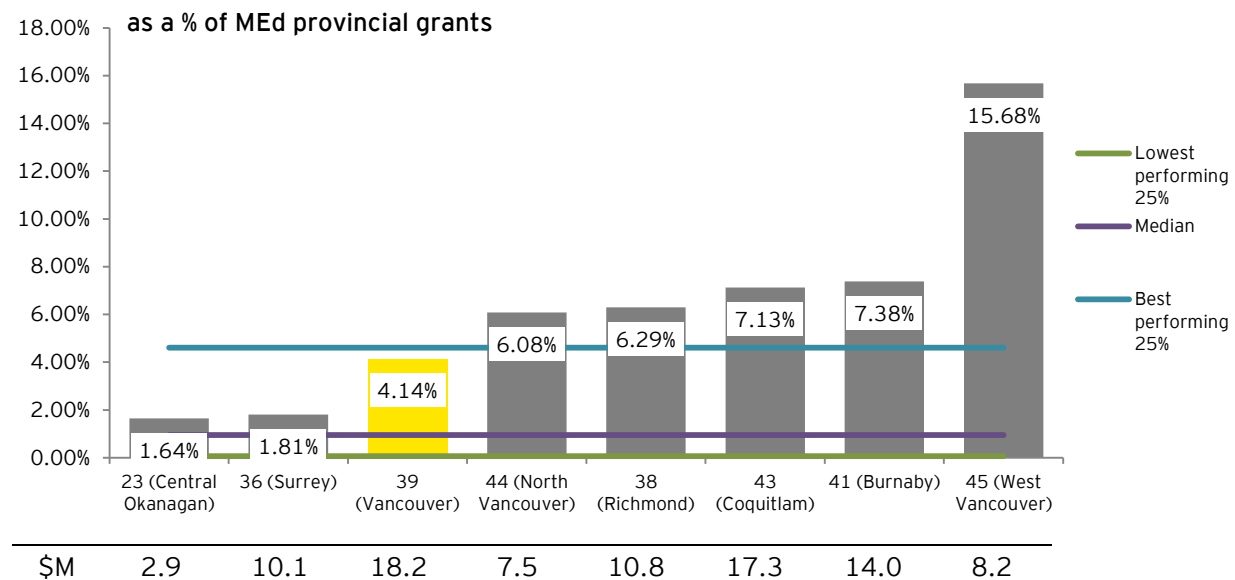
Going forward, the integration of VBE's Continuing Education program into Langara College's Continuing Studies program means VBE will no longer receive revenues from Continuing Education in the form of fees. Instead, the source of VBE's Continuing Education revenue will be through provincial funding of Adult Education to complete high school credits, forecasted to bring in revenues of \$0.2M in SY2014/15 and \$0.3M in SY2015/16.

As provincial funding for Adult Education is assumed to be static, there is assumed to be no opportunity to materially increase revenues from this source.

5.4.7 Tuition - offshore tuition fees

The following chart presents the benchmarking of fees received for students who are not residents in a British Columbia school district.

SY2013/14 Benchmarking



Source: Ministry of Education

Finding 5.6

Of all BC school districts, VBE received the highest absolute revenue of \$18M in offshore tuition in SY2013/14, but does not reach top quartile when revenue is taken as a percentage of MED provincial grants.

The opportunity to increase offshore tuition revenue is driven by two factors: price and enrolment.

VBE's tuition fees will increase to \$13,000/year in SY2015/16 and to \$14,000/year in SY2016/17, which should better align VBE with West Vancouver's offshore tuition fee of \$14,200/year for SY2015/16 and SY2016/17, leaving little opportunity to change tuition fees further, in the short term.

On the enrolment side, VBE has experienced an increase of 50% in the number of international students, from SY2009/10 to SY2014/15. While, enrolment capacity has been reached at the more popular west side schools in the District, VBE is targeting an increase of 50 international students in East-side schools.

The benchmarking suggests that if VBE were to achieve top quartile performance, revenues could increase by \$2.1M, and if VBE were to achieve the performance of North Vancouver at 6.08% or West Vancouver at 15.68%, revenues could increase between \$8.6M - \$50.8M. To limit reliance on funding

from the international markets, which may expose VBE to risks associated with economic uncertainty of overseas jurisdictions and other geo-political issues, VBE plans to cap international student enrolment at 5% of the student population (compared to approximately 7% for West Vancouver). Giving consideration to VBE’s cap on international student enrolment, VBE’s population of international students could be increased by a maximum of approximately 1,000 students, thereby allowing revenues to potentially increase by \$14M based on tuition fee rates at SY2016/17. It should further be noted that the opportunity to expand revenue sources from international students is not mutually inclusive with opportunities identified elsewhere in this report pertaining to capacity rationalization and the cost benefits associated therewith. Decisions pertaining to the appropriate equilibrium between the opportunities must be addressed by the VBE.

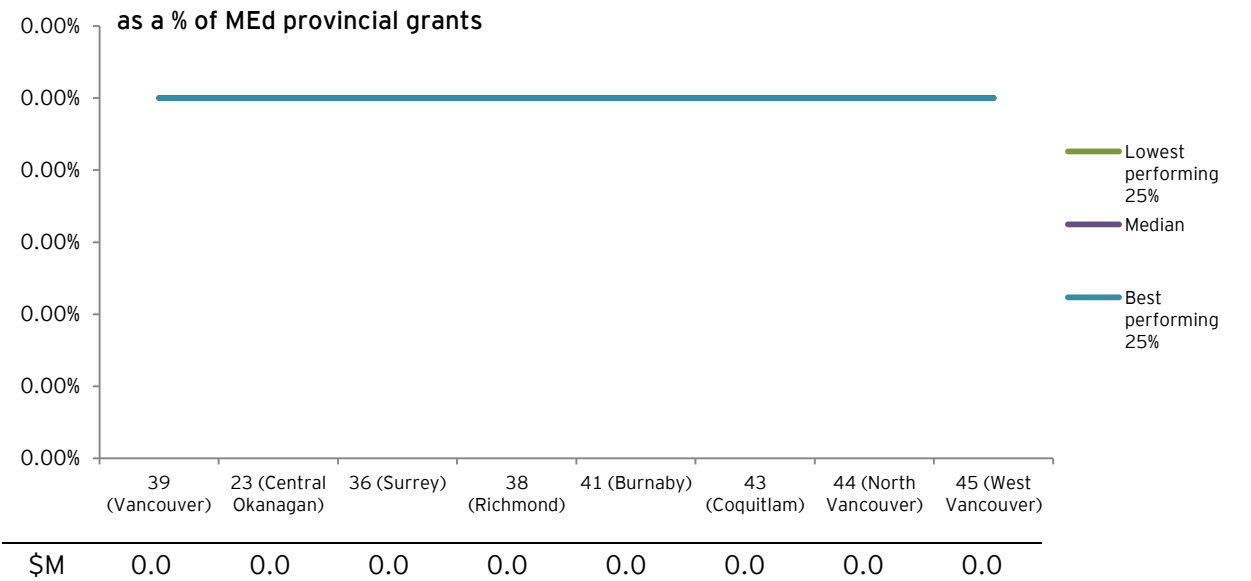
Recommendation 5.3

In order for VBE to achieve its target of increasing the number of international students in the below capacity East-side schools, VBE to continue to explore options to market underutilized schools in the East-side to international students

5.4.8 Tuition - district entered

The following chart presents the benchmarking of other tuition fees not falling under Summer School, Continuing Education and Offshore tuition.

SY2013/14 Benchmarking



Source: Ministry of Education

Finding 5.7

Most school districts, including Vancouver School District, do not report any additional tuition revenue other than the three main sources of Summer School, Continuing Education and Offshore Tuition Fees.

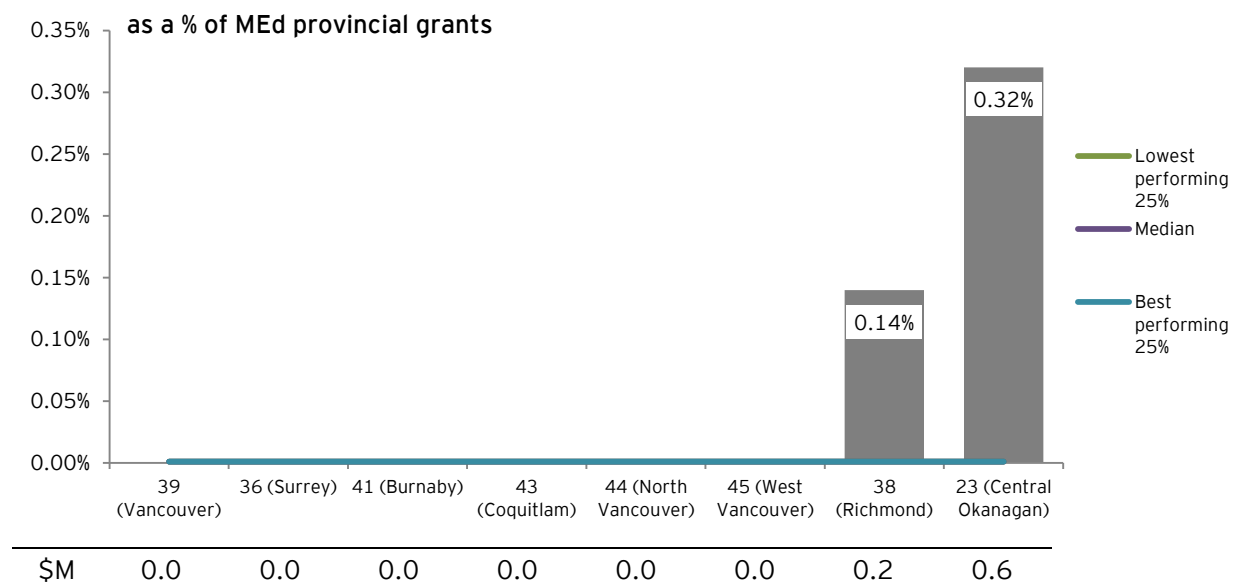
Recommendation 5.4

VBE assess the results of the Ministry-led pilot project that aims to explore the provision Distributed Learning to international students. If the Ministry were to change the policy to allow provision of Distributed Learning to international students as a result of the pilot project, VBE consider marketing Distributed Learning courses to incoming international students as preparation or a head start for attending schools in the District.

5.4.9 Other revenues - other school district/education authorities

The following chart presents the benchmarking of revenue received from other school districts and education authorities, including payment of provision of services and reimbursement for the provision of education to students registered in other districts at September 30, 2013.

SY2013/14 Benchmarking



Source: Ministry of Education

Finding 5.8

VBE and peer schools, with the exception of the Central Okanagan and Richmond school districts, do not receive revenues under this category. Revenues received by Central Okanagan in this category include payments received for providing shared services, such as Workers' Compensation Board

reviews, as well as health and welfare services. Richmond receives revenues for rental of facilities to other school districts.

VBE is in the process of developing a marketing program for out-of-district Distributed Learning to BC students. This program will be potentially rolling out in the summer of 2015, and could likely result in increased reimbursement revenue from other school districts.

At this time, VBE does not provide shared services to other school districts.

The benchmarking suggests that if VBE were to achieve the level of Central Okanagan, the top performing peer, revenues could be increased by \$1.4M.

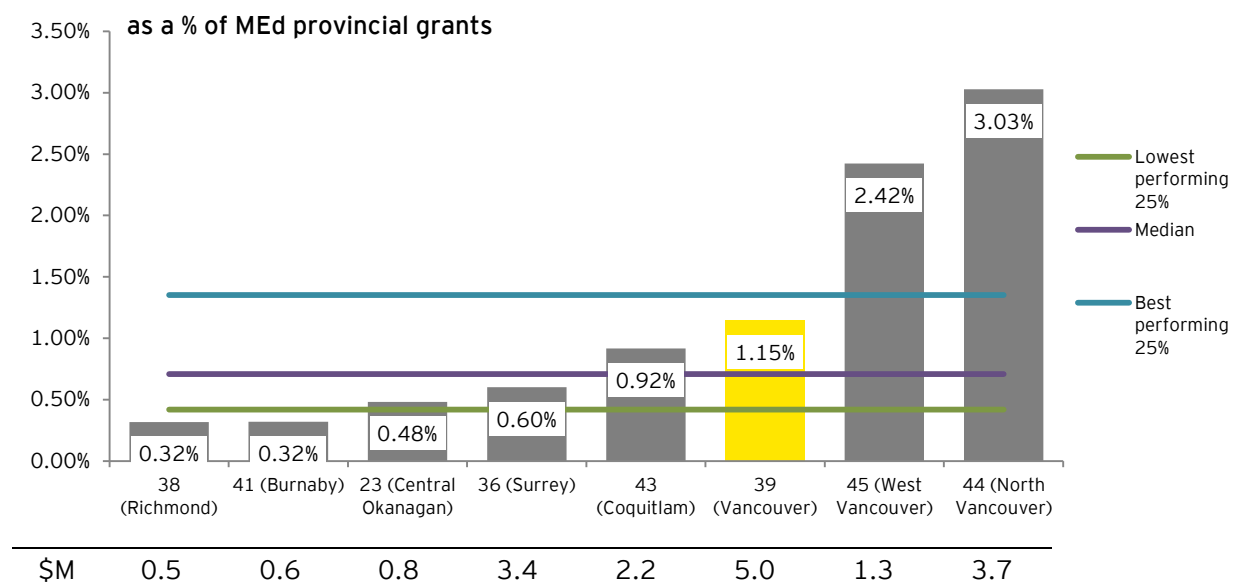
Recommendation 5.5

VBE explore taking advantage of the recent implementation of PeopleSoft as it potentially has the capability to provide shared services and/or host systems for HR and Payroll for other districts.

5.4.10 Other revenues - miscellaneous - district entered

- ▶ The following chart presents the benchmarking of revenues received which do not fall into the above mentioned revenue streams.

SY2013/14 Benchmarking



Source: Ministry of Education

Finding 5.9

In absolute terms, VBE performs highest among its peers, with miscellaneous revenues amounting to \$5M in SY2013/14. VBE received the second highest absolute revenues from miscellaneous revenue sources of all BC school districts, second only to Delta School District, which received miscellaneous revenues of \$5.6M. VBE performs just above the median when miscellaneous revenues are considered as a percentage of Provincial grants provided by the Ministry.

VBE has recently implemented paid parking within all school lots, including paid parking for school staff. The fees received from paid parking are expected to go towards cost recovery of parking lot maintenance costs of approximately \$0.4M/year, required to maintain 3,300 parking spaces.

VBE receives approximately \$3M/year in donations and sponsorships, most of which goes to specific programs and initiatives; VBE received only \$0.04M in unrestricted donations in SY2013/14.

The benchmarking suggests that if VBE were to achieve top quartile performance, miscellaneous revenues could be increased by \$0.9M.

Recommendation 5.6

There are many potential revenue initiatives under the broad category of Miscellaneous revenue which VBE should consider.

The initiative with the most potential impact would be for VBE to consider re-employing a Business Development team, which was previously dissolved. The dedicated team would be responsible for sourcing additional revenue streams that could include the following initiatives:

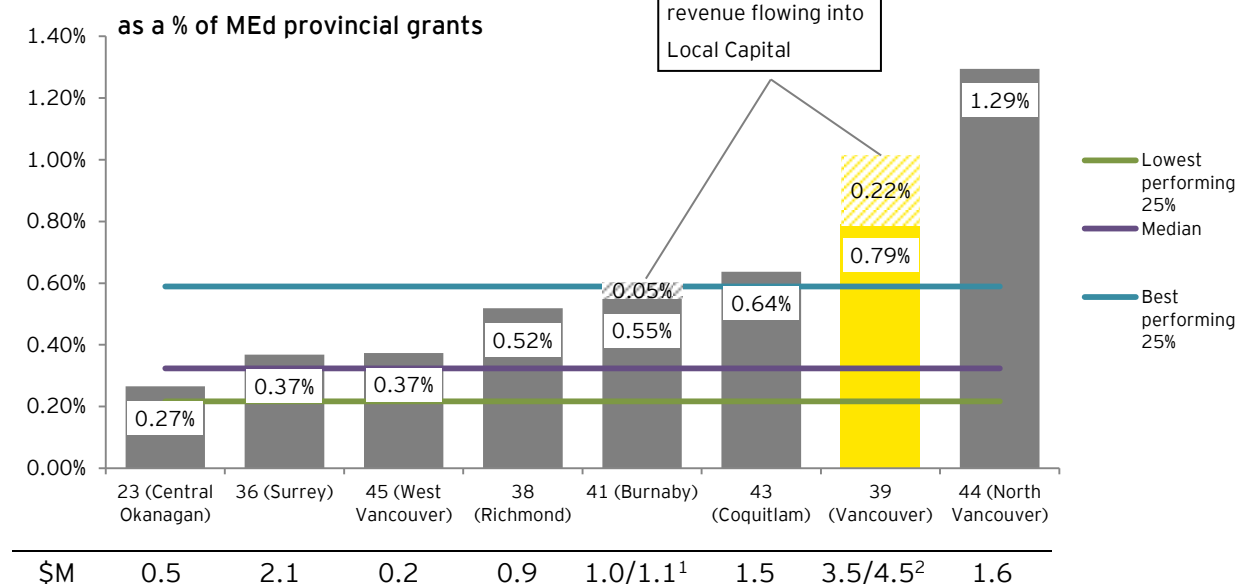
- ▶ Explore the potential of soliciting greater unrestricted donations and sponsorships through alumni and sponsorship programs;
- ▶ Within the parameters of VBE's commercialization policy, pursue opportunities to increase responsible and appropriate advertising revenue;
- ▶ Explore increasing the number of partnerships, including alignments with the City of Vancouver, use of rebate programs similar to existing BC Hydro rebates for meeting energy management targets, and the PeopleSoft subsidy for being the first school district to roll out the PeopleSoft software;
- ▶ Explore partnering with various businesses for exclusive provider rights / sponsorships to be the sole provider of a product in the school district for beverages, computers, etc.;
- ▶ Explore the sale of licenses for manufacturing clothes with school branding;
- ▶ Explore increased marketing of school memorabilia on items including yearbooks and products with school logos (especially for high schools students nearing graduation); and
- ▶ Explore receiving additional revenues from product sales through providing students with the ease of accessing necessities, products and services within school property, including automated teller machines and mini-convenience stores selling essentials.

Additionally, other educational revenue streams should be explored as a potential revenue source. VBE to explore the provision of more fee based programs to students within the Vancouver district to increase profitability for Mini Schools / Academies. VBE to also explore opportunities to license educational proprietary knowledge to foreign education institutions, similar to a model applied by Boston University - to license its continuing education programs to affiliates at home and abroad.

5.4.11 Rentals and leases

The following chart presents the benchmarking of all revenues from fees paid to schools for rentals of facilities owned by the school district, as well as rental and lease revenues received by Vancouver and Burnaby School Districts into the Local Capital Reserve fund.

SY2013/14 Benchmarking



Source: Ministry of Education

1 \$0.10M in Local Capital lease revenue

2 \$0.98M in Local Capital lease revenue

Finding 5.10

VBE performs in the top quartile across all school districts, receiving the highest absolute rental and lease revenue into its operating fund of \$3.5M in SY2013/14, and is second only to North Vancouver, when rental and lease income is considered as a percentage of MEd provincial grants. VBE and Burnaby received an additional \$1.0M and \$0.1M, respectively, in lease revenue to their Local Capital funds, which could be transferred into the operating fund.

VBE's Facilities team performed a rental rate review in 2015. The review concluded that VBE's rental rates for school facilities are comparable with rates achieved by community centres and other school boards.

The benchmarking above suggests that if VBE were to achieve the level of North Vancouver, revenues could increase by \$4.5M.

Recommendation 5.7

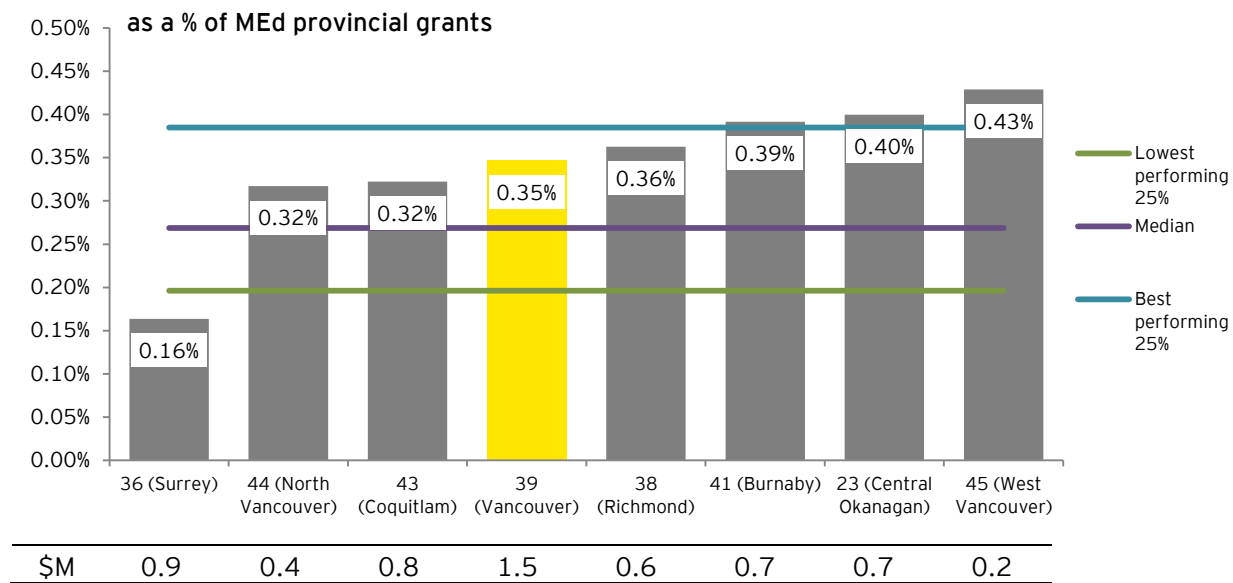
There are a number of initiatives which VBE should consider to increase rental and lease revenues:

- ▶ Consider creating new commercial lease space on school property in future developments;
- ▶ Review space requirements against capacity to reallocate extra space for rental to compatible tenants, e.g. Montessori School;
- ▶ Consider implementing tiered facility rental rates based on facility age, location, amenities, etc.;
- ▶ Consider changing strategy from accepting rental business to soliciting facility rental business to increase revenues, including opportunities for revenues from Vancouver's film and TV industry, and recreation leagues, as well as rental of facilities for corporate events;
- ▶ Following examples set by other school districts in BC and Canada, consider rental of rooftops to solar energy companies to produce solar energy, which may lead to steady monetary benefits ranging from reduced electricity costs to additional revenue streams from property rental and sale of generated electricity back to the grid;
- ▶ Consider converting underutilized space to garden space to generate revenues from rental or sales of produce, as demonstrated by a partnership between FoodShare and schools under the Toronto District School Board; and,
- ▶ Further expand VBE's lease opportunities for telecommunications equipment.

5.4.12 Investment income

The following chart presents the benchmarking of revenue from funds deposited in term deposits or investments, and all other investment income.

SY2013/14 Benchmarking



Finding 5.11

Vancouver School District received at least two times more revenue from investments than any other district in absolute terms at \$1.5M, and performs above the median on a percentage of MEd Provincial grant basis in SY2013/14.

VBE schools generally invest with the same local bank, while VBE itself invests with the provincial Central Deposit, and is the school district with the largest amount invested into the program.

The benchmarking suggests that if VBE were to reach top quartile performance, revenues could increase by \$0.2M. However, variation in performance may be due to factors beyond VBE's control such as naturally different cash flow profiles of the school districts.

5.4.13 Summary of revenue opportunities arising from benchmarking

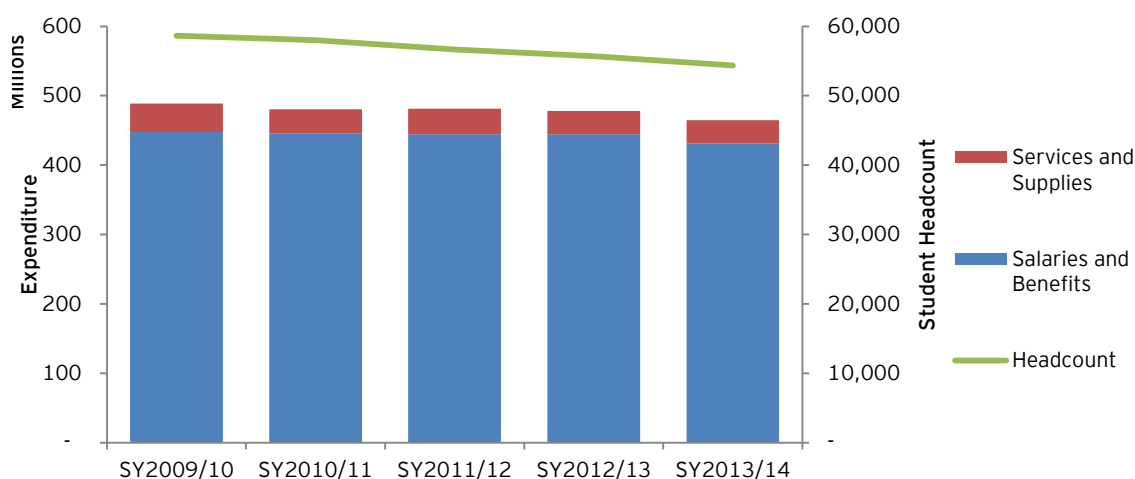
The following table summarizes the opportunities based on the benchmarking of VBE's revenue streams to the performance of other school districts in BC, including its direct peers.

Table 5.2: Revenue benchmarking opportunities		
Revenue stream	Potential revenue opportunity	Section
Provincial grants - other	Best performing quartile performance - \$1.4M	5.4.3
Federal grants	No material opportunity based on benchmarking	5.4.4
Tuition - summer school fees	Peer performance of Burnaby - \$0.1M	5.4.5
Tuition - continuing education	No material opportunity based on decreased service offering	5.4.6
Tuition - offshore tuition fees	Best performing quartile performance - \$2.1M Peer performance of North Vancouver/West Vancouver, considering international enrolment cap - \$8.6M to \$14.0M	5.4.7
Tuition - district entered	No material opportunity based on benchmarking	5.4.8
Other revenues - other school district/education authorities	Peer performance of Central Okanagan - \$1.4M	5.4.9
Other revenues - miscellaneous - district entered	Best performing quartile performance - \$0.9M	5.4.10
Rentals and leases	Peer performance of North Vancouver - \$4.5M	5.4.11
Investment income	Best performing quartile performance - \$0.2M	5.4.12
Total	\$10.6M - \$22.5M	

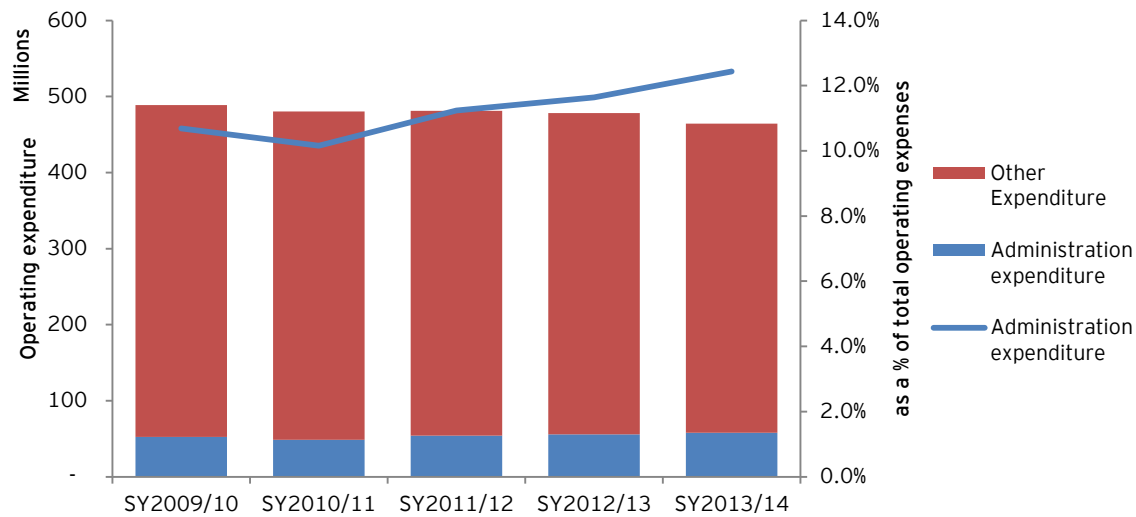
5.5 Operating cost efficiencies

5.5.1 Recent trends in operating expenditure

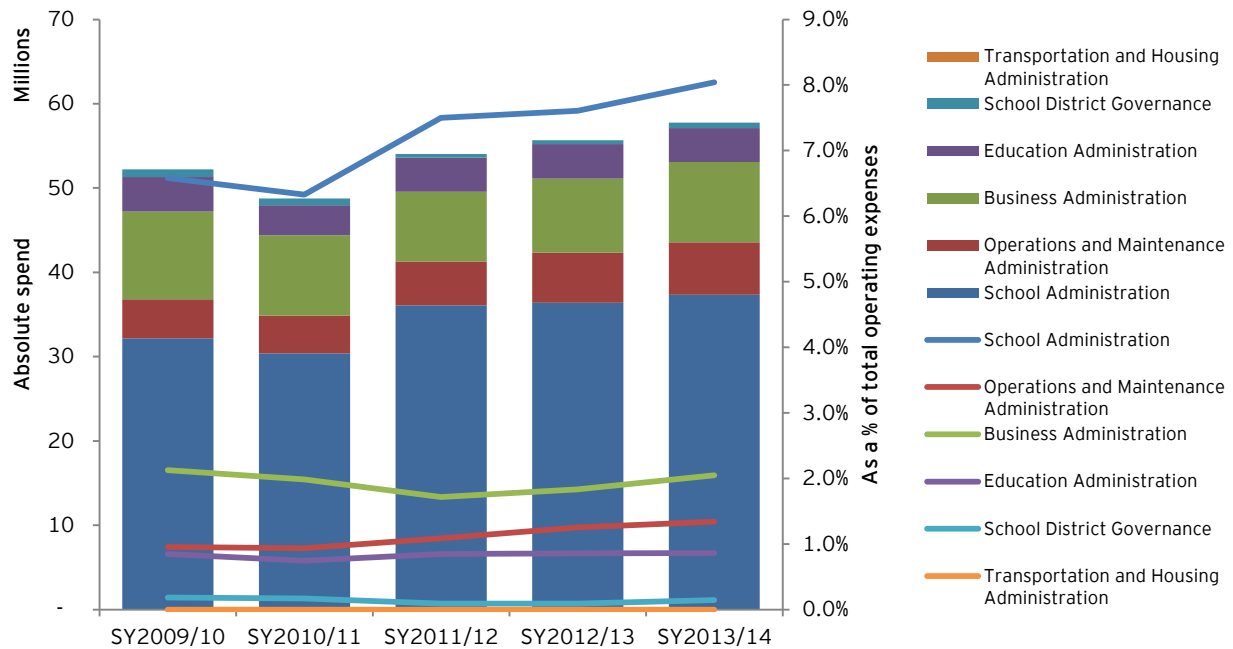
Between SY2009/10 to SY2013/14, as headcount has declined approximately 1.8% per year, VBE's total operating expenditure has steadily declined at a rate of approximately 1.2% per year. In this period, while services and supplies declined 4.5% per year, salaries and benefits declined 0.9% per year. The following chart shows the decrease in total operating expenditure and decline in student enrolment.



In the analysis presented in this section, salaries and benefits and services and supplies expenditure are considered in turn. An alternative way of segmenting the cost base is to: consider administrative costs, which include both salaries and benefits for all employee groups (inclusive of Teachers, Principals, Vice Principals, Educational Assistants, Support Staff, Other Professionals and Substitutes as segmented in the audited financial statements); and services and supplies associated with administration. Administration expenditure has continued to rise during the period of SY2009/10 to SY2013/14, increasing from 10.7% of total operating expenditure to 12.4%. This trend is illustrated in the chart below.

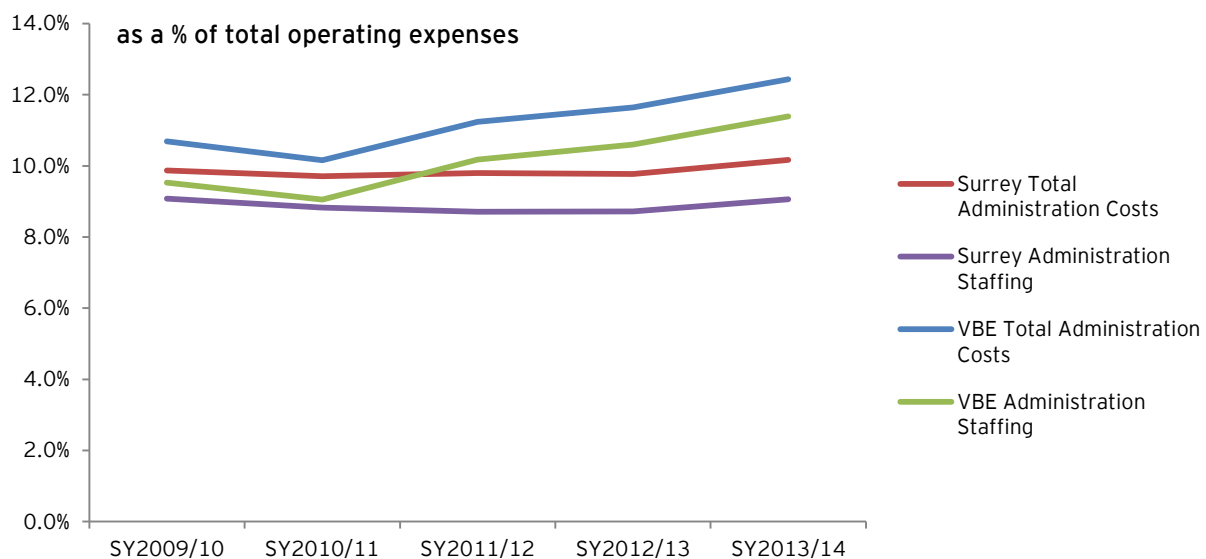
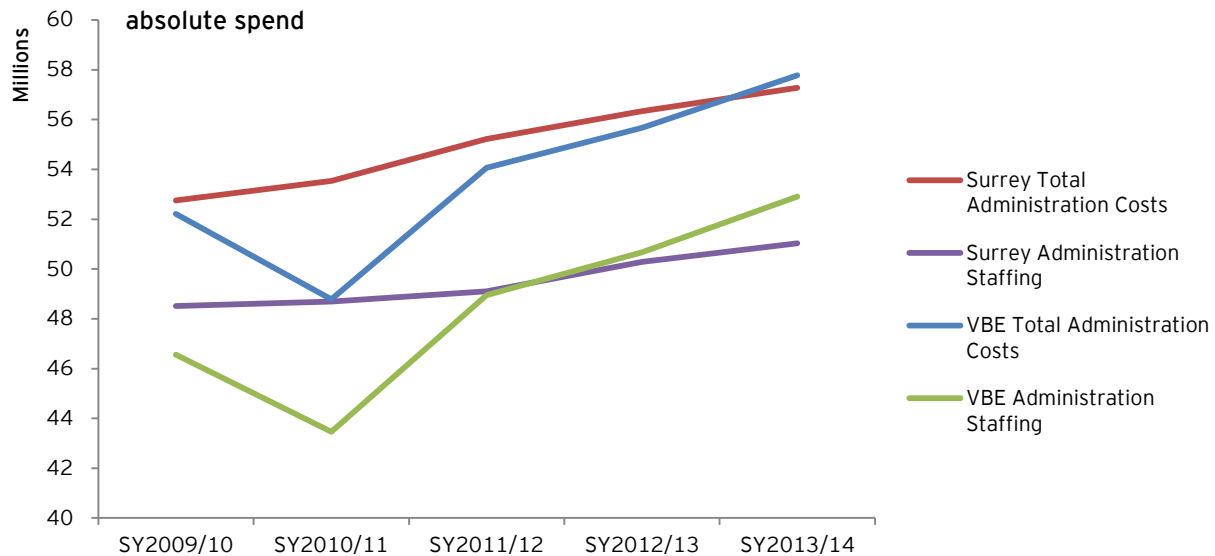


Administration costs include School Administration, Educational Administration, School District Governance, Business Administration, Operations and Maintenance Administration, Transportation and Housing Administration. The increase in overall administration expenditure has been driven principally by an increase in School Administration costs. The following chart presents the trend of administration expenditure between SY2009/2010 and SY2013/2014 both in absolute terms and as a percentage of total operating expenses.



Source: Audited Financial Statements SY2009/10 - SY2013/14

When comparing both staffing and total administration costs, aside from VBE's decrease in costs in SY2010/2011, VBE's administration costs have been growing at a faster rate than the administration costs of Surrey, both in absolute terms and as a percentage of total operating costs. The following charts compare the Administration costs due to salaries and benefits, and total Administration costs for VBE and Surrey, first in terms of absolute cost, and secondly as a percentage of total operating costs.



If VBE were to achieve the same level of administration costs as a percentage of total operating expenses as Surrey of 10.2% in SY2013/2014, VBE's administration costs could be decreased by \$10.2M.

Approximately 90% of total expenditure for both VBE and Surrey covers staffing costs. These staffing costs are governed by various collective agreements. For example, under the terms of collective agreements, the number of VBE maintenance staff is directly correlated with the square footage of school space. Interviews with VBE suggested that VBE is required to invest greater time and effort in managing collective agreements than other school districts, on account of the greater number of collective agreements in place. The table below compares the number of master collective agreements between VBE and Surrey. It should be noted that the Bargaining Council of Vancouver Board Construction and Maintenance Trade Unions represents 9 separate unions.

Table 5.3 : Collective agreement parties - VBE and Surrey	
VBE	Surrey
<ol style="list-style-type: none"> 1. CUPE 15 2. CUPE 407 3. IUOE 963 4. Bargaining Council of Vancouver School Board Construction and Maintenance Trade Unions 5. BC Teachers' Federation / Vancouver Teachers' Federation 6. Vancouver Teachers' Federation (VESTA Adult Educators' Sublocal) 	<ol style="list-style-type: none"> 1. CUPE 728 2. The Surrey Teachers' Association

5.5.2 Current cost base and historical initiatives

In order to identify opportunities to achieve operating cost efficiencies, EY reviewed prior work with comparable scope and analyzed the performance of VBE compared to other school districts in the province, looking firstly at salaries and benefits and secondly at services and supplies.

A review of the historical cost efficiency initiatives identified in previous reviews with comparable scope was conducted, and we have mapped the historical cost efficiency initiatives to VBE's cost base. The following table presents VBE's cost base and the amended budget amount for each item in SY2014/15. The table also distinguishes the cost items for which historical initiatives have been recommended in previous reviews.

Table 5.4: VBE cost base			
Expenses		2014/15 amended budget (\$M)	Historical initiatives identified
Salaries and benefits	Salaries	347.9	✓
	Benefits	91.1	✓
Services and supplies	Supplies	16.1	✓
	Services	11.7	✓
	Utilities	8.8	✓
	Student transportation	2.8	✓
	Professional development and travel	2.0	✓
	Insurance	1.3	
	Dues and Fees	1.2	
	Rentals and leases	0.5	✓
	Interest	0.0	

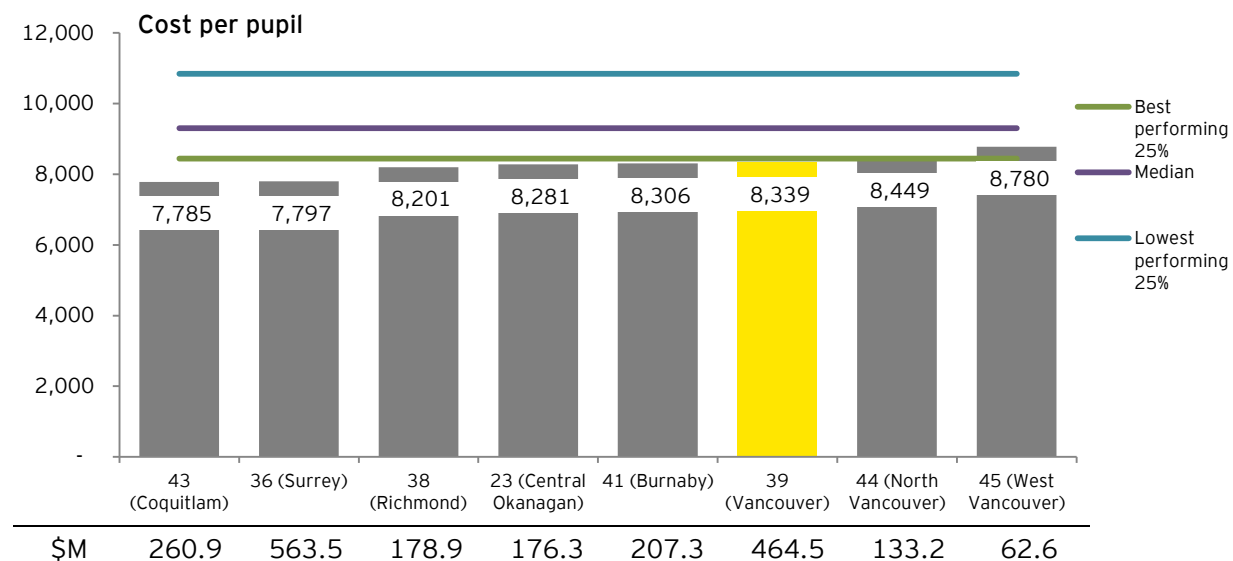
Source: VBE Amended Annual Budget, June 30, 2015

Based on our analysis of the previous reviews, historical initiatives have been identified for most material areas of the cost base.

5.5.3 Total operating expenses

The following chart compares VBE's cost per pupil to other districts in terms of total operating expenses.

SY2013/14 Benchmarking



Finding 5.12

When total operating cost per pupil is considered, VBE performs higher than most districts, spending less per pupil than 80% of school districts in BC, but more than most peer districts.

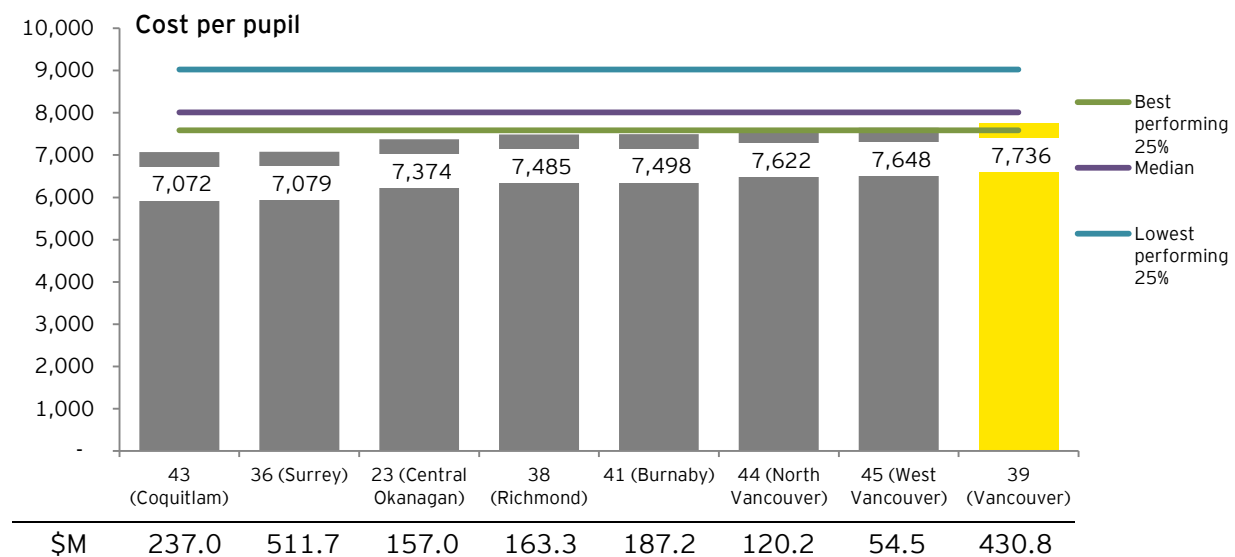
VBE may incur additional costs that are generally associated with being based in a major urban area.

The benchmarking above suggests that if VBE were to achieve the levels of top performers Coquitlam and Surrey, expenses could decrease by \$543 - \$554 per pupil, representing overall savings of \$30.2M - \$30.9M.

5.5.4 Salaries and benefits

The following chart compares VBE's cost per pupil to other peer districts for operating expenses from salaries and benefits.

SY2013/14 Benchmarking



Finding 5.13

When total salaries and benefits cost per pupil is considered, VBE is a median performer spending \$7,736 per pupil.

Student to staff ratios

The following table presents VBE's SY2014/15 student to staff ratios compared to the student to staff ratios of a subset of school districts comprising of Central Okanagan, Surrey, Burnaby, and Coquitlam. The analysis was originally prepared for the Vancouver School District by an independent consultant in March 2015. EY did not independently verify the accuracy of the ratios presented.

Table 5.5: VBE and Subset Districts student/staff ratios

Staff	VBE student/staff ratio	Subset student/staff ratio	Difference between VBE and subset
Teachers	19.84	20.55	0.71
Principals/Vice Principals	256.33	259.38	3.05
Other Professionals	497.44	622.99	125.55
Support staff	40.19	57.89	17.7
Support staff adjusted for supervision aides	46.96	57.89	10.93
Educational assistants (EAs)	56.89	57.38	0.49
Special education teachers	8.19	7.87	-0.32
Special education EAs	3.02	2.88	-0.14
Aboriginal education teachers	226.78	217.67	-9.11
Aboriginal education EAs	85.04	71.81	-13.23
ESL teachers	70.02	69.3	-0.72
ESL EAs	510.5	479.76	-30.74
Superintendent and Secretary Treasurer's offices	3595.77	2606.96	-988.81
Budget and finance	2649.51	2949.83	300.32
Purchasing	4195.06	5884.98	1689.92

Table 5.5: VBE and Subset Districts student/staff ratios

Staff	VBE student/staff ratio	Subset student/staff ratio	Difference between VBE and subset
HR	177	187.52	10.52
Payroll	426.48	354.32	-72.16
IT	898.94	1004.95	106.01
Facilities (operations, maintenance, grounds)	84.26	126.55	42.29

Finding 5.14

Based on the comparison summarized above, VBE has a lower student to support staff ratio for all staffing types serving regular enrolment (excluding international students), as well as department staff for Budget and Finance, Purchasing, HR, IT and Facilities.

As detailed in section 6.6 of this report, a reduction in excess surplus capacity of VBE's schools and classrooms could increase the district's student to support staff ratios as set out above, thereby reducing staff and overhead costs.

Recommendation 5.8

In the next round of collective bargaining, VBE to give consideration to the variation identified in student / support staff ratios between VBE and a subset of peer districts, as set out in the Comparative Staffing Levels Report.

Employee wellness

In 2013, VBE implemented the district Employee Wellness and Support Initiative to promote a holistic commitment to the three key areas; disability management, wellness and attendance support. In addition to providing support and resources to promote the wellness of its employees, the initiative also aimed to decrease replacement costs associated with employee wellness.

Consideration of average sick days per school sector employee in BC and nationally, indicates that there may be further opportunity for VBE to reduce the total number of sick days. The following table presents average sick days per employee for SY2013/2014, by employee group, for VBE, as well as the BC and national averages.

Table 5.6 : VBE and Surrey average sick days per employee in SY2013/14

Employee group	VBE average	BC average	National average
Unionized educators	12.6	10.4	7.6
Support	15.2	12.8	8.6
Non-unionized educators ¹	5.7	7.2	3.3
Exempt	7.6	5.9	5.5
Overall average	13.2	11.0	7.7

Source: VBE; Report of the Attendance Support, Wellness and Occupational Safety Working Group

¹ VBE has assumed non-unionized educators to be Principals / VP

In order to estimate the benefit of VBE achieving the BC or national average sick days per employee, the cost of replacing unionized educators for VBE was identified and is presented in the table below. Information on the replacement cost of other employee groups was not available.

Table 5.7 : VBE and Surrey sick leave costs in SY2013/14

Employee group	VBE ¹		
	Count	Cost	Rate
Unionized educators	30,323 days	\$8.48M	\$280/day

Source: VBE Employee Wellness and Support Initiative - Update Memorandum, May 2015; Surrey School District

¹ Values are annualized to 10 months based on 6 months data (October 2013 to March 2014)

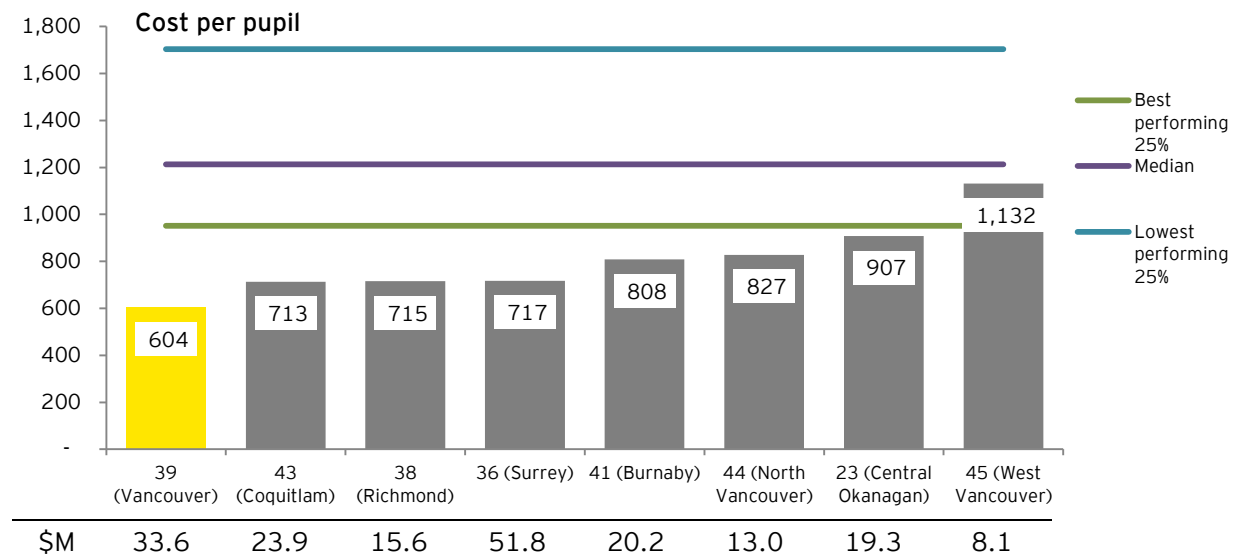
If VBE were to achieve the BC average sick days per unionized educator, total sick days could be reduced by approximately 5,280 days, representing a total avoided replacement cost of \$1.5M.

If VBE were to achieve the national average sick days per unionized educator, total sick days could be reduced by approximately 12,000 days, representing a total avoided replacement cost of \$3.4M.

5.5.5 Services and supplies

The following chart presents the benchmarking of cost per pupil of total services and supplies.

SY2013/14 Benchmarking



Finding 5.15

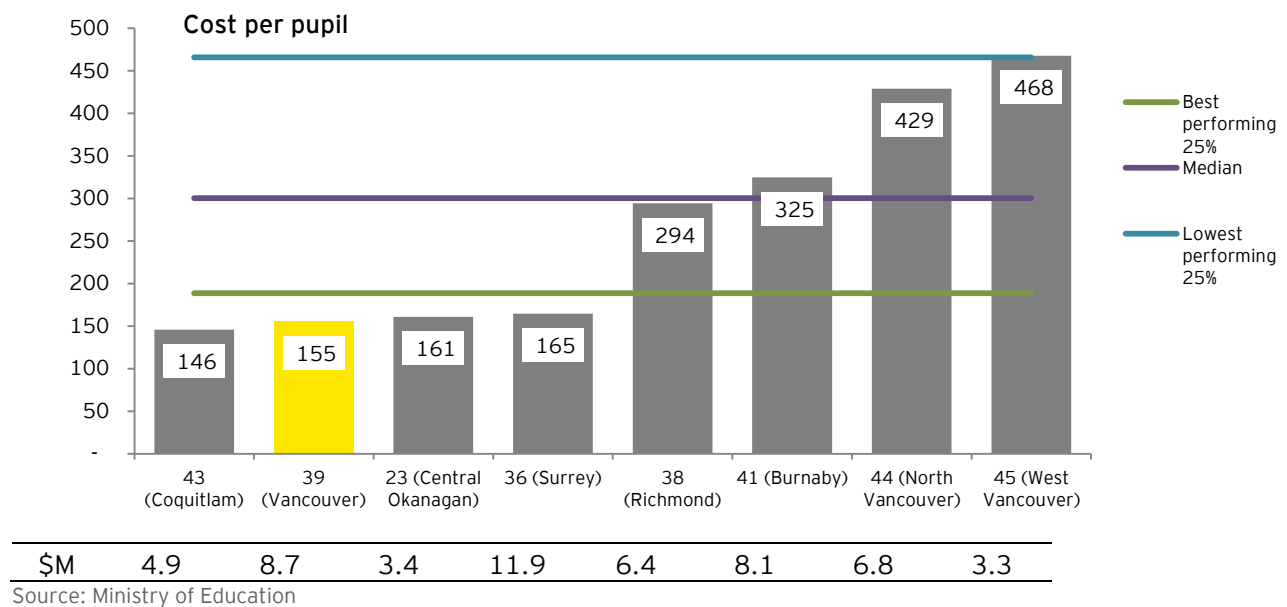
Considering all expenses other than salaries and benefits, VBE spends less per pupil compared to all districts in BC, spending over \$100 less per pupil when compared with the next highest performing school district.

The benchmarking above suggests that there is no material opportunity to reduce expenditure on services and supplies. The following analysis benchmarks VBE's expenditure on specific types of services and supplies expenditure.

5.5.6 Services and supplies - services

The following chart presents the benchmarking of expenditures for services by non-employees or companies including professional, technical, telecommunications and administrative services.

SY2013/14 Benchmarking



Finding 5.16

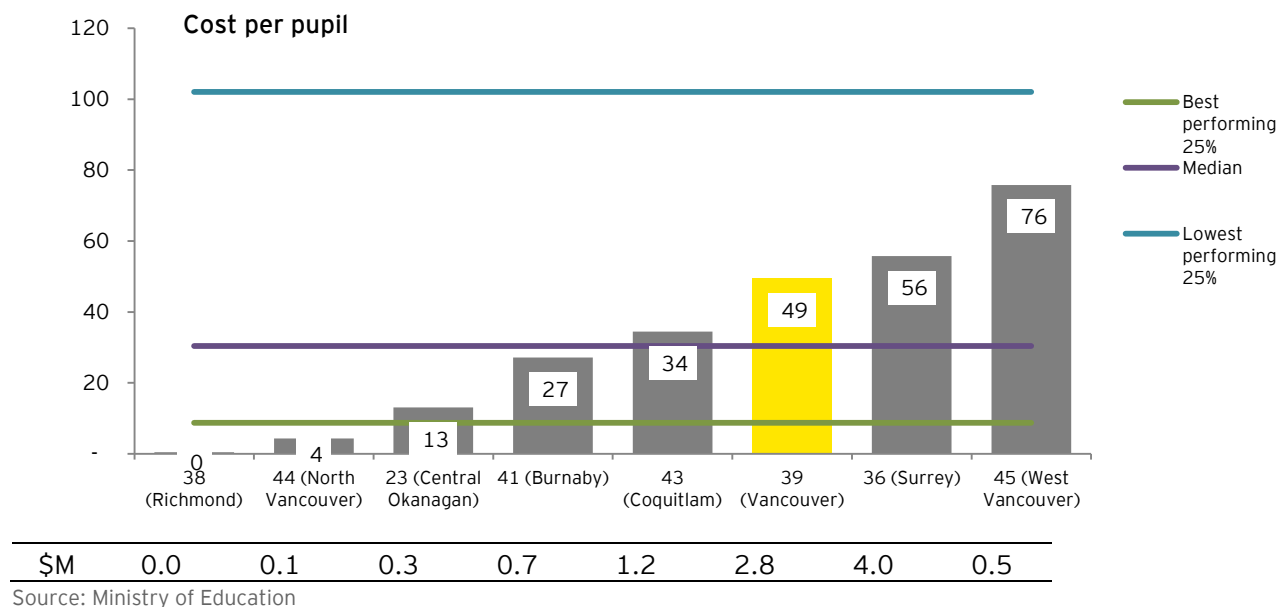
VBE performs well across the school districts in BC and against its peers, spending less than most districts in BC, at expenditures of \$155 per pupil.

The benchmarking above suggests that there is no material opportunity to reduce VBE expenditure on services.

5.5.7 Services and supplies - student transportation

The following chart presents the benchmarking of payments made to public carriers, other school districts and others who provide transportation for school district pupils.

SY2013/14 Benchmarking



Finding 5.17

VBE spent \$49 per pupil on student transportation, and performs near the median among all BC school districts.

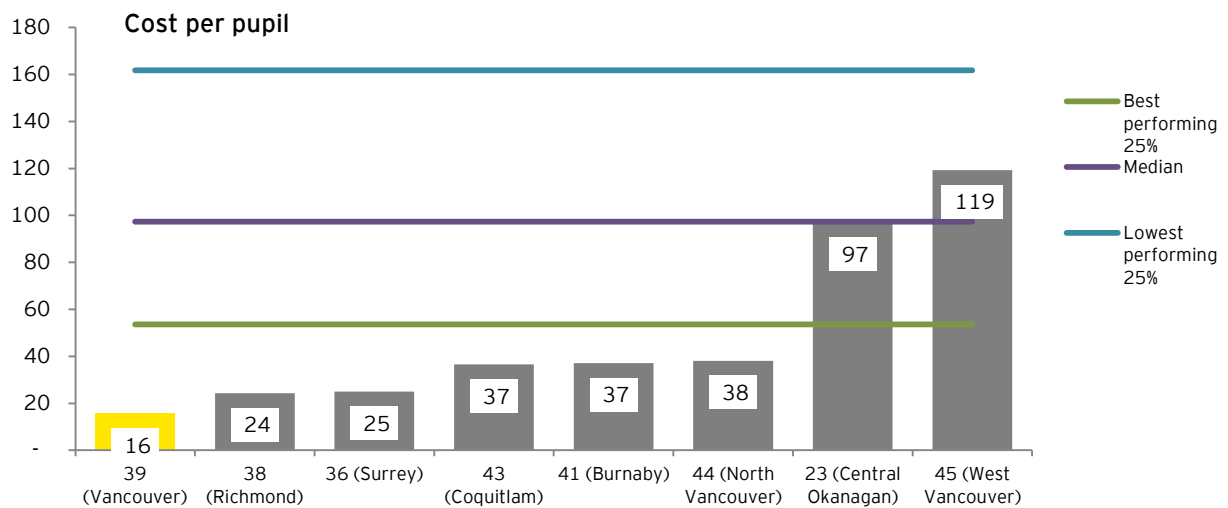
VBE has implemented an initiative, recommended in the PwC VSB Resource Allocation Review from 2012, to review and update the eligibility criteria for bus fare reimbursement, for the purpose of reducing costs. The PwC VSB Resource Allocation Review from 2015 notes that the implementation of this initiative provides \$0.29M in recurring estimated annual benefits, and has accumulated benefits of an estimated \$0.29M since SY2012/13. PwC has subsequently revised the recurring estimated annual benefits down to \$0.14M, after further validation of the benefits with VBE.

The benchmarking above suggests that if VBE were to achieve top quartile level, expenses could be decreased by \$2.3M, while achieving median performance could decrease expenses by \$1.1M.

5.5.8 Services and supplies - professional development and travel

The following chart presents the benchmarking of non-taxable costs incurred for training and travel.

SY2013/14 Benchmarking



\$M	0.9	0.5	1.8	1.2	0.9	0.6	2.1	0.9
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Source: Ministry of Education

Finding 5.18

VBE spent \$0.9M on student transportation, with the lowest expenditure per pupil of \$16 among all BC school districts.

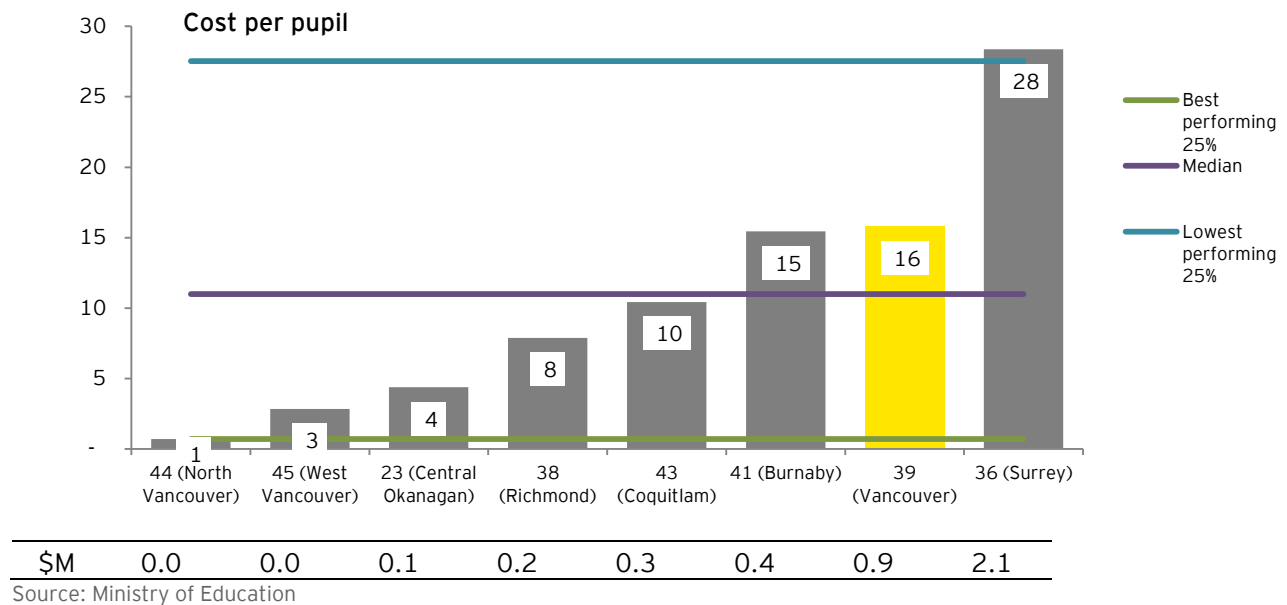
Across districts in BC, top performing districts are generally those that have larger public transportation systems.

The benchmarking above suggests that there is no opportunity for to materially reduce VBE's expenditure on professional development and travel.

5.5.9 Services and supplies - rentals and leases

The following chart presents the benchmarking of expenditures for the rental or lease of land, buildings, vehicles and equipment.

SY2013/14 Benchmarking



Finding 5.19

VBE's spend of \$16 per pupil on rentals and leases in SY2013/2014 is 50% higher than the median spend of \$11 per pupil across the province.

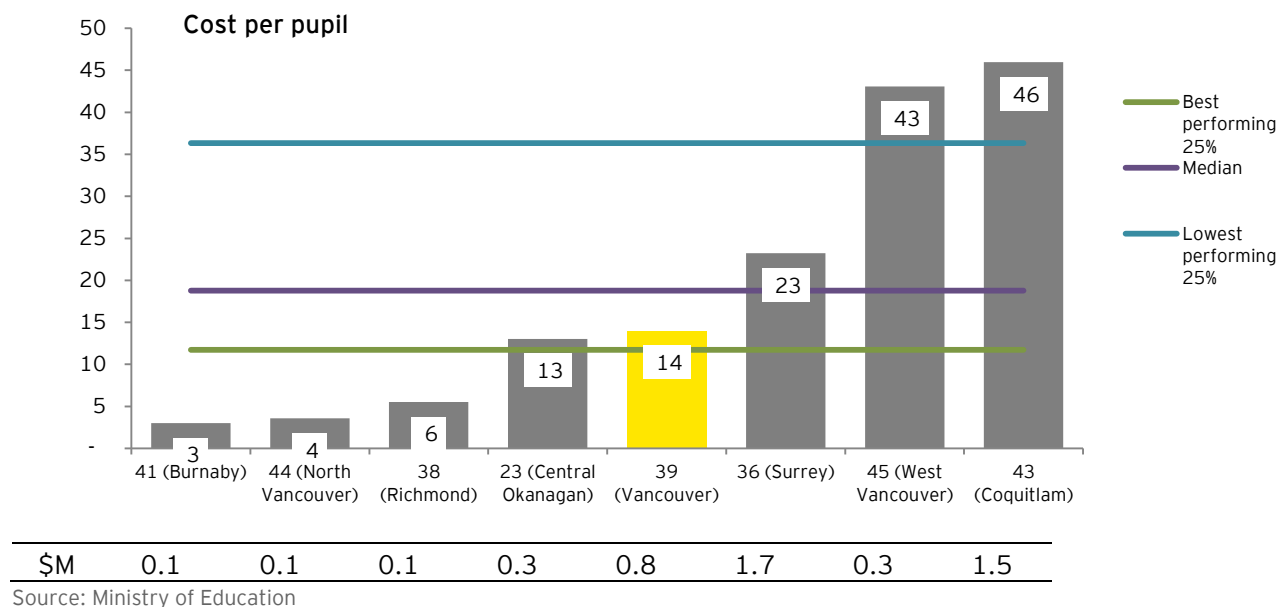
In SY2013/14, over 80% of VBE's rental and lease costs went towards the lease of buildings. However, PwC's Vancouver School Board Resource Allocation Review 2015 noted that in 2014, VBE moved the Main Street Education Centre out of a leased space, reducing its rental and lease costs. The Review also notes that Management has proposed the termination of other leasing agreements for Adult Education in the SY2015/16 proposal process. VBE has budgeted rental and lease expenses to fall to \$0.5M in SY2014/15, reducing the cost per pupil by almost half to \$9 per pupil.

The benchmarking above suggests that if VBE were to achieve the expenditure level of lowest spending quartile, expenditure on rentals and leases could be reduced by \$0.8M.

5.5.10 Services and supplies - dues and fees

The following chart presents the benchmarking of payments for membership fees and dues to professional organizations as determined by district policies.

SY2013/14 Benchmarking



Finding 5.20

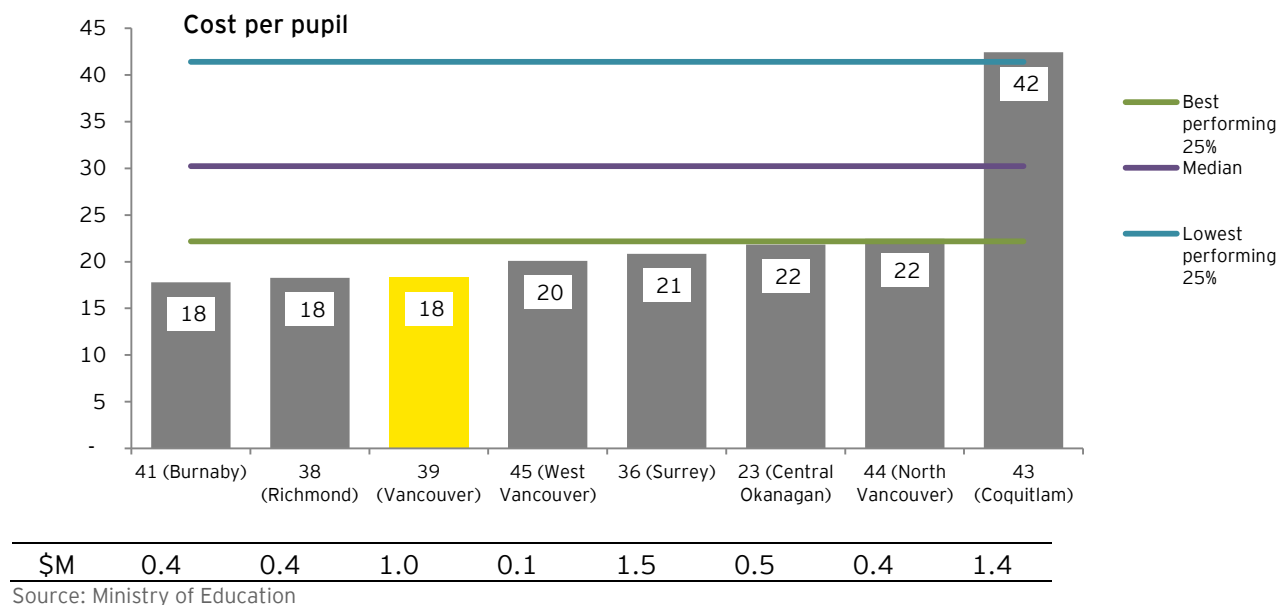
VBE expenditures for fees in SY2013/2014 amounted to \$0.8M, or \$14 per pupil, therefore placing VBE as a median performer among BC school districts.

The benchmarking above suggests that if VBE were to achieve the level of the lowest spending quartile, expenditure on dues and fees could be reduced by \$0.1M.

5.5.11 Services and supplies - Insurance

The following chart presents the benchmarking of expenditures for insurance coverage of property, liability, etc.

SY2013/14 Benchmarking



Finding 5.21

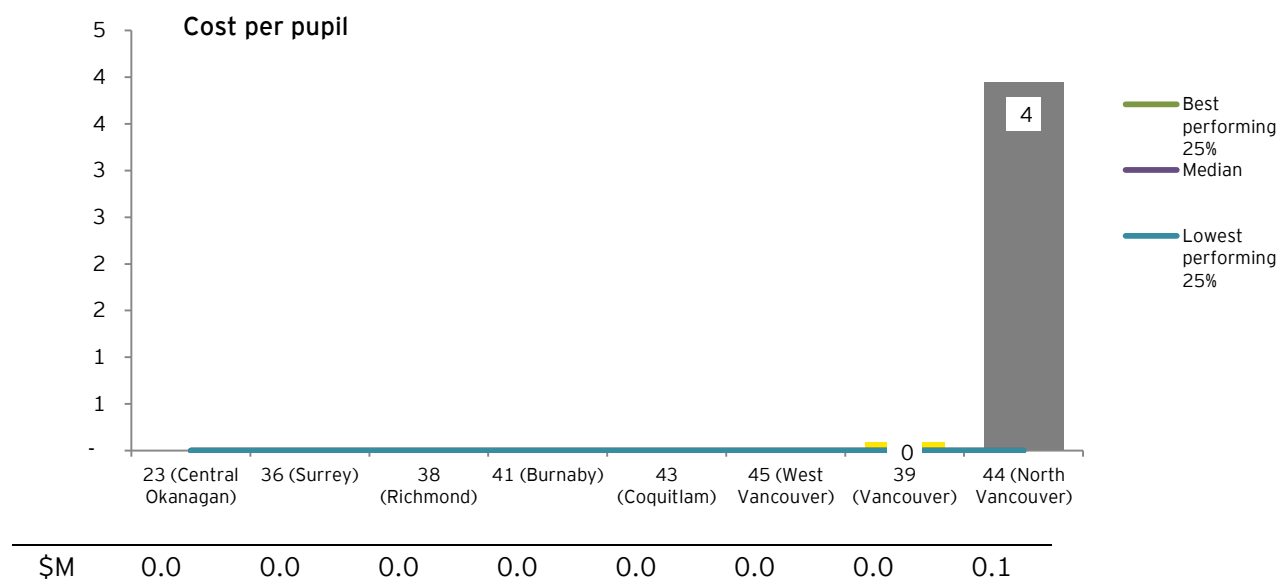
VBE performed well against other school districts and is in lowest spending quartile, spending \$18 per pupil, equating to \$1M in insurance costs, most of which paid for public liability and property loss.

The benchmarking above suggests that there is no opportunity to materially reduce expenditures on insurance.

5.5.12 Services and supplies - interest

The following chart presents the benchmarking of expenditures to service debt.

SY2013/14 Benchmarking



Finding 5.22

Most school districts in BC had little or no expenditures for interest payments.

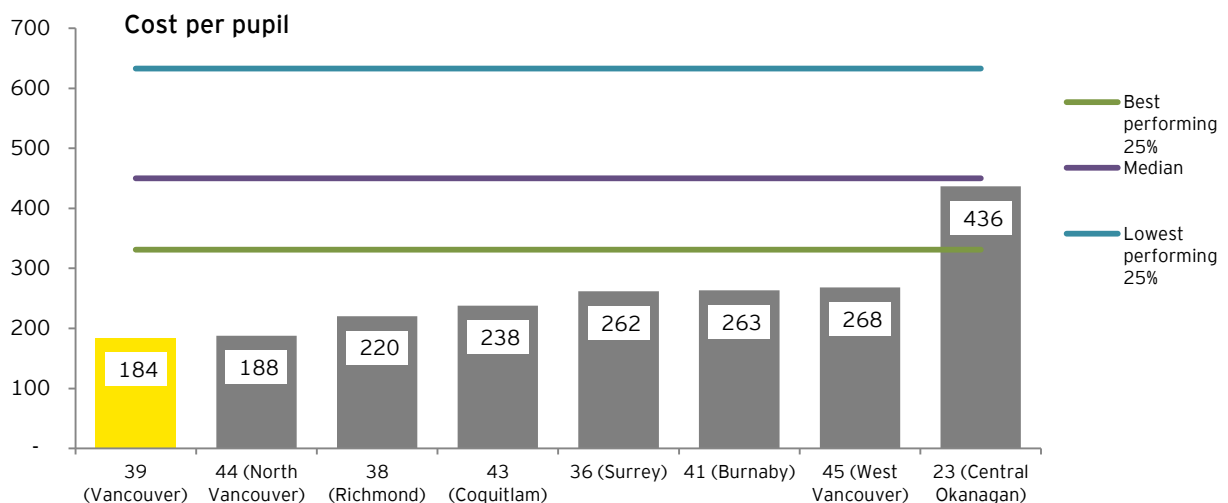
North Vancouver paid \$62,146 in debt servicing for a capital loan from the BC Provincial Treasury, while VBE paid \$5,406 in lease interest for SY2013/2014.

The benchmarking above suggests that there is no opportunity to materially reduce expenditures on interest.

5.5.13 Services and supplies - supplies

The following chart presents the benchmarking of expenditures for supplies of a consumable and/or non-capital nature, used in the general operation and maintenance of schools.

SY2013/14 Benchmarking



\$M	10.3	3.0	4.8	8.0	18.9	6.6	1.9	9.3
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Source: Ministry of Education

Finding 5.23

On a per pupil basis, VBE is one of the lowest spending districts in BC, and spent less than its peer districts, with expenditures of \$184 per pupil.

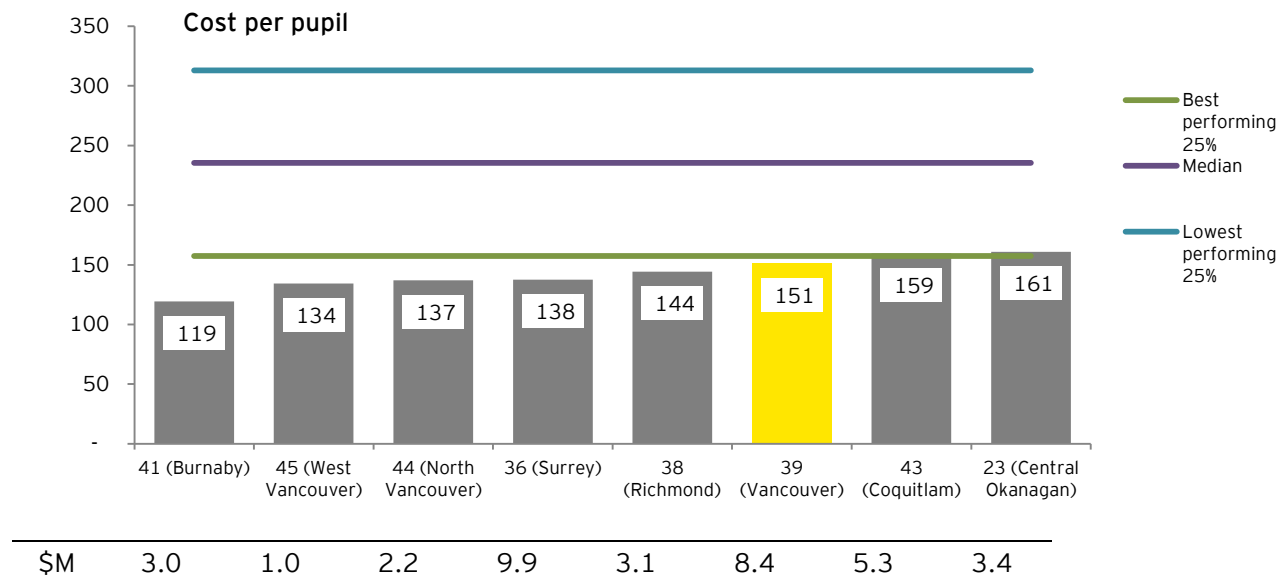
A review of VBE's detailed cost base shows that over 28% of VBE's spend was for cleaning and maintenance supplies.

The benchmarking above suggests that there is no opportunity to materially reduce expenditures on supplies.

5.5.14 Services and supplies - utilities

The following chart presents the benchmarking of expenditures for utility costs for electricity, heating, water and sewage, and garbage and recycling.

SY2013/14 Benchmarking



Finding 5.24

VBE performs in the lowest spending quartile, with lower spend per pupil than peer districts Coquitlam and Central Okanagan, at \$151 per pupil and \$8.4M in total, but higher than the other peer districts.

As presented by PwC in their Interview Notes for the Vancouver School Board Resource Allocation Review 2015 report, over the past decade VBE has upgraded lighting and heating systems into various sites, and integrated energy efficiency initiatives into the construction of new and upgraded developments to decrease electricity costs.

The benchmarking above suggests that if VBE were to achieve the performance level of its peers with lower spend per pupil, expenses could be reduced by \$7 - \$32 per pupil, representing \$0.4M - \$1.8M in total savings.

5.5.15 Summary of potential cost savings arising from benchmarking

The following table summarizes the opportunities based on the benchmarking of VBE's cost base to those of its peers.

Table 5.8: Cost benchmarking opportunities		
Expenses	Potential cost savings opportunity	Section
Services	No material opportunity based on benchmarking	5.5.6
Student transportation	Median performance - \$1.1M Best performing quartile performance - \$2.3M	5.5.7
Professional development and travel	No material opportunity based on benchmarking	5.5.8
Rentals and leases	Best performing quartile performance - \$0.8M	5.5.9
Dues and fees	Best performing quartile performance - \$0.1M	5.5.10
Insurance	No material opportunity based on benchmarking	5.5.11
Interest	No material opportunity based on benchmarking	5.5.12
Supplies	No material opportunity based on benchmarking	5.5.13
Utilities	Peer performance of Richmond or Burnaby - \$0.4M to \$1.8M	5.5.14
Total	\$2.4M - \$5.0M	

5.5.16 Cost efficiency initiatives

With 16 historical cost efficiency initiatives yet to be fully implemented, VBE should continue progressing on the cost efficiencies as recommended in historical reports and management proposals, while continuing to explore opportunities to participate in future provincial shared service offerings. The following tables summarize the historical cost efficiency initiatives as recommended in previous reviews with a comparable scope, as well as presenting new initiatives. The table presents the status of each initiative, the estimated benefits associated with the initiative and whether the benefits are one-time or recurring.

Table 5.9: PwC VSB resource allocation review - March 2012			
Initiatives	Status	Estimated annual benefits*	One-time/ recurring
Sourcing - Implement standardized purchasing procedures for district departments and schools	In process	\$0.88M	Recurring
Adult education - Consolidate self-paced adult education programs to fewer centres	In process	\$1.16M	Recurring
Cafeteria costs - Assess cost model for School Meal Program and consider implementing alternative service delivery model for non-teaching cafeterias	In process	\$0.22M	One-time/ Recurring
Britannia operating costs - Re-evaluate cost sharing agreement with Britannia Community Centre	In process	\$0.15M	Recurring
Leasing costs - Review facility lease costs, assess needs and identify alternatives	In process	\$0.60M	Recurring
Printing and copying costs - Develop and communicate standardized printing guidelines/replace less efficient printers	In process	\$0.18M	Recurring

Table 5.9: PwC VSB resource allocation review - March 2012

Initiatives	Status	Estimated annual benefits*	One-time/recurring
Redeployment of VBE properties - Consider redeploying properties (closure of classrooms to reduce cleaning cost)	In process	\$0.04M	Recurring
VOIP telephone and voicemail services - Implement VOIP services	Minimal progress	\$0.15M - \$0.20M ¹	Recurring
Digital media - Assess the viability of implementing digital media	In process	\$0.12M	Recurring
Records management - Implement an electronic records management system	In process	Minimal savings ¹	Recurring
Shared services/outourcing - Implement an alternative delivery model for administrative services	In process	Minimal savings ¹	Recurring
Centralization of A/P services - Consolidate functions with central administration	In process	\$0.03M ²	-
Total		\$0.2M one-time \$3.5M - \$3.6M recurring	

* Updated benefits from PwC's 2015 Review

¹ Provided by VBE

² Revised by PwC following the Interim Report for PwC's 2015 Review

Table 5.10: Management proposals 2015/2016

Initiatives	Status	2015/2016 budget impact	One-time/ recurring
Continue with sale and lease back of furniture, equipment and technology	New	\$2.92M	One-time
Reduce furniture and equipment budget	New	\$0.37M	One-time
Reduce maintenance trades staff	New	\$0.50M	One-time
Set class size minimums to 26 for all structured adult education courses; re-structure program	New	\$1.59M	Recurring
Adjust international student teaching entitlement formula to 22:1 FTE and reduce secondary school teachers allocation by 3 FTE	New	\$1.05M	Recurring
Withdraw lump sum funds and premium holidays from employee benefit plan	New	\$1.95M	One-time
Total		\$5.7M one-time \$2.6M recurring	

Table 5.11: PwC VSB resource allocation review 2015, interim report - April 2015 - New Initiatives

Initiatives	Status	Benefits
Review operational functions to develop appropriate allocation of resources	New	Further investigation required ¹
Consider a process consistency and efficiency review of operational functions	New	Further investigation required ¹
Evaluate the benefits of implementing a mobile maintenance workforce	New	Further investigation required ¹
Consider conducting a benefits compliance audit to provide assurance and control	New	Further investigation required ¹

¹ Provided by VBE

Table 5.12: Report on the Vancouver School Board - Office of the Comptroller General

Initiatives	Status	Benefits
Develop and comprehensive district wide facilities plan that ensures school space is maximized, and includes revenue opportunities and cost containment strategies	In progress	Further investigation required ¹
Consider consolidation of selected high cost secondary school programs	Not implemented	—

Table 5.12: New initiatives

Initiatives	Status	Benefits
Consider cost savings from optimizing special needs bus usage: optimizing routing annually/reduce idle time	New	Further investigation required
Consider alternative service delivery model for cleaning/maintenance services	New	Further investigation required
In the next round of collective bargaining, parties should give consideration to the variation identified between VBE student/support staff ratio and the peer subset for all staffing types serving regular enrolment, as well as department staff for Budget and Finance, Purchasing, HR and IT	New	Further investigation required

¹ Provided by VBE

Finding 5.25

Based on our analysis of the previous reviews, historical initiatives have been identified for most material areas of the cost base. Our analysis of the previous reviews noted 16 recommendations are in progress for potential one-time savings of \$5.9M and ongoing annual savings of \$6.1-\$6.2M, with the potential for additional savings from further investigation on the identified initiatives.

Recommendation 5.9

VBE continue progressing on the cost efficiencies as recommended in historical reports and management proposals, while continuing to explore opportunities to participate in future provincial shared service offerings.

5.5.17 Service delivery transformation initiatives

In addition to the documents reviewed as listed in the tables above, we have also performed a high level review of initiatives identified in the BC Ministry of Education and School Districts Service Delivery Transformation Report by Deloitte and Touche LLP from August 2012. As there is overlap on initiatives between the Service Delivery Transformation Report and PwC's 2012 recommendations, we

have used PwC's assessment of VBE's progress on the PwC 2012 recommendations to determine VBE's progress on initiatives set out in the Service Delivery Transformation Report. We have summarized VBE's progress on the Service Delivery Transformation initiatives in the following table:

Table 5.13: Implementation of Deloitte's service delivery transformation initiatives		
Initiative	Status	Budget impact
Procurement - P-Cards and Strategic sourcing	<p>PwC's assessment of PwC's 2012 recommendations noted the following:</p> <ul style="list-style-type: none"> ▶ eProcurement purchasing policy revised, leading to 97% of requisitions now being process through eProcurement ▶ P-Cards have been implemented, although take up of P-Cards is low perhaps due to difficulty of the reconciliation process ▶ Certain CPO contracts, including Office supplies, have been renegotiated, and contracts are being negotiated annually. Some CPO contracts are still under auto-renewal due to lack of staff coverage 	<p>PwC's assessment of PwC's 2012 recommendations note the following:</p> <ul style="list-style-type: none"> ▶ \$2.65M in estimated accumulated cost savings from 2012/13 to 2014/15 ▶ \$0.88M in estimated recurring annual cost savings
Transportation - Alternative service delivery models, leverage on BC Government fleet procurement contract, Provincial fuel procurement model	Assessment of Transportation initiatives were not in PwC's 2015 Review, as it was out of scope and not reviewed	Budget impact was not assessed in PwC's 2015 Review, as it was out of scope and not reviewed
Facilities - Capital program management and delivery, Facilities management	Assessment of Facilities initiatives were not in PwC's 2015 review, as it was out of scope and not reviewed	Budget impact was not assessed in PwC's 2015 Review, as it was out of scope and not reviewed

Table 5.13: Implementation of Deloitte's service delivery transformation initiatives

Initiative	Status	Budget impact
IT - Print services, Centralization of email and communications to Microsoft, Centralized SharePoint portal	<p>PwC's assessment of PwC's 2012 recommendations noted the following:</p> <ul style="list-style-type: none"> ▶ VBE transitioned to one photocopier provider through an RFP process. The agreement with the new provider included an audit which identified over 2,300 inefficient single function printers and devices. Following the audit, an equipment management program was implemented to monitor and replace, if necessary, multi-function devices and equipment 	<p>PwC's assessment of PwC's 2012 recommendations note the following:</p> <ul style="list-style-type: none"> ▶ \$0.55M in estimated accumulated cost savings in print management from 2012/13 to 2014/15 ▶ \$0.18M in estimated recurring annual cost savings
HR and Payroll - Centralized, shared HR/Payroll system at outsourced Payroll Centre of Expertise,	<p>PwC's assessment of PwC's 2012 recommendations noted the following:</p> <ul style="list-style-type: none"> ▶ VBE implemented PeopleSoft to centralize HR, finance and procurement functions ▶ VBE has decided not to outsource these functions at this time 	<p>PwC's assessment of PwC's 2012 recommendations note the following:</p> <ul style="list-style-type: none"> ▶ The Ministry of Education and Public Service Agency provided \$5M-\$6M to VBE as funding for the pilot project
Attendance Support, Wellness and Occupational Health and Safety program	<p>PwC's assessment of PwC's 2012 recommendations noted the following:</p> <ul style="list-style-type: none"> ▶ VBE implemented a holistic Employee Wellness and Attendance Support Program to promote awareness of resources in place to increase employee engagement, manage sick leave, disability and WorkSafe BC claims, and promote regular attendance 	<p>PwC's assessment of PwC's 2012 recommendations note the following:</p> <ul style="list-style-type: none"> ▶ \$2.0M in estimated accumulated cost savings from 2013/14 to 2014/15 ▶ \$0.75M in estimated recurring annual cost savings

Table 5.13: Implementation of Deloitte's service delivery transformation initiatives

Initiative	Status	Budget impact
Legal - Centralization of legal services	<p>PwC's assessment of PwC's 2012 recommendations noted the following:</p> <ul style="list-style-type: none"> ► Under the Province's Shared Service initiatives, BC Public School Employers' Association has helped to establish a labour litigation pool to be shared among BC school districts for legal support, helping reduce district legal expenses, including legal costs to VBE 	PwC's 2015 Review did not specify a budget impact for the initiative
Total		<p>\$10.2M in estimated accumulated cost savings</p> <p>\$1.8M in estimated recurring annual cost savings</p>

5.6 Summary of efficiency and revenue opportunities

Table 5.14: Summary of revenue and cost efficiency opportunities

Opportunity	Recurring annual benefits	One-time benefits	Section reference
Revenue benchmarking	\$10.6M - \$22.5M	Further investigation of initiatives required	5.4.13
Cost benchmarking	\$2.4M - \$5.0M	Further investigation of initiatives required	5.5.15
PwC VSB resource allocation review 2012	\$3.5M - \$3.6M	\$0.2M	5.5.16
Management proposals 2015/16	\$2.6M	\$5.7M	5.5.16

Table 5.14: Summary of revenue and cost efficiency opportunities			
Opportunity	Recurring annual benefits	One-time benefits	Section reference
PwC VSB resource allocation review 2015 - New Initiatives	Further investigation of initiatives required	Further investigation of initiatives required	5.5.16
Office of the Comptroller General - report on VSB	Further investigation of initiatives required	Further investigation of initiatives required	5.5.16
New cost initiatives	Further investigation of initiatives required	Further investigation of initiatives required	5.5.16
Service Delivery Transformation initiatives	\$1.8M	Further investigation of initiatives required	5.5.17
Total	\$20.9 - \$35.5M*	\$5.9M	

* Opportunities included in the range may contain overlap, resulting in a higher estimated range.

5.7 Limitations

The benchmarking outlined above provides indicative analysis to support VBE and the Ministry to identify potential opportunities for administrative support and overhead efficiencies. There are a number of limiting factors that restrict the reliance that should be made on the benchmarking presented. It is therefore recommended that further investigation be conducted to validate the findings presented. Limitations include:

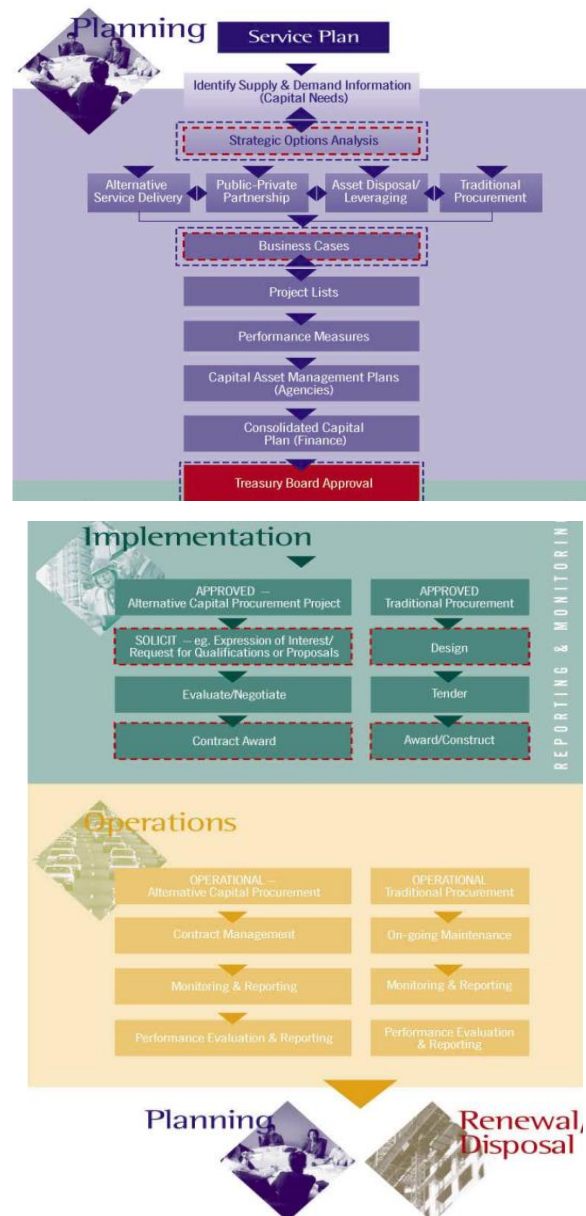
- ▶ School districts may not consistently report revenue streams and cost items in the same manner.
- ▶ Variations in performance may be affected by factors unique to the respective school districts, including, for example, requirements driven by different numbers of special needs students, variations in costs associated with being located in a rural or metropolitan area, and variations in the age of buildings, etc. These factors potentially drive legitimate variations in performance and should be further investigated.
- ▶ In addition, there may be underlying causes that are directly driving the variation in performance of the areas analysed that should be considered and resolved, including variation in space utilization.

6. Capital asset management

6. Capital asset management

6.1 Introduction

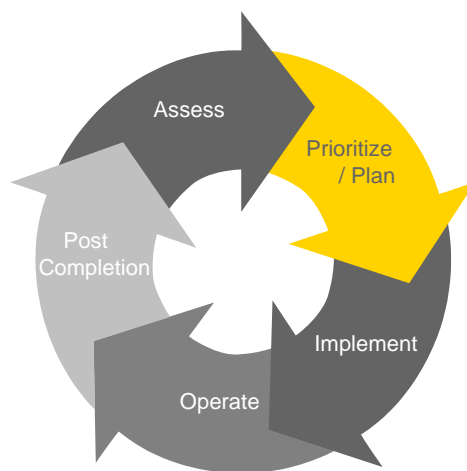
Capital asset management refers to the standards and processes applied through an asset's full life cycle - from planning and acquisition through to operation, maintenance and disposal or renewal - as illustrated in the BC Ministry of Finance's Capital Asset Management Framework chart below:



The Government of British Columbia provides guidance on best practice through the above CAM Framework, which consists of three integrated components, including: (i) Overview, (ii) Guidelines, and (iii) Tools. This CAM Framework is the guiding framework of choice for the Ministry of Education and VBE.

In the context of both the Ministry of Education and VBE, the purpose of capital asset management is ultimately to meet or support the delivery of quality education by ensuring the availability of safe and functional schools, in a manner that makes the best use of available funding.

The following diagram depicts the five stage capital asset management lifecycle that school districts in British Columbia follow:



^Source - Developed as part of this review through interviews with the Ministry of Education, Planning and Major Projects, May 2015

Effective capital asset management involves:

- 1) Assess - undertaking a system-wide, risk-based needs assessment built on an understanding of current and projected future circumstances;
- 2) Prioritize/Plan - needs assessment resulting in the identification of priorities and development of business cases;
- 3) Implement -completion of the project/creation of the new capital asset;
- 4) Operate - plan for optimization of the new asset using a lifecycle cost analysis to manage least cost; and
- 5) Post Completion - a process to measure and evaluate successes and areas of improvement.

6.2 Scope and approach

6.2.1 Work stream scope and objectives

The capital asset work stream focused on assessing the effectiveness of VBE's capital asset management program to identify opportunities that will optimize VBE's capital asset portfolio for the benefit of the District's most important stakeholders - its students. Within this scope, the work stream focused on the following two objectives, as requested in the Ministerial Order:

- ▶ Objective I: Review the short and long-term capital plan and forecast, including school capacity and utilization rates, and propose options for optimizing assets to benefit students
- ▶ Objective II: Review the district's capital assets including all buildings, leases, and real estate and identify opportunities to reduce leased space or surplus assets that provide no value to students

This review involved the evaluation of a substantial amount of data in a limited timeframe. Accordingly, the assessment of VBE's capital asset management program is limited to a review of the material issues affecting the District.

6.2.2 Out of scope

The objective and scope of the capital asset work stream was prioritized to focus on the effectiveness of VBE's capital asset management program and its material capital assets. On this basis the following items, included to some extent in past reviews, were deemed out of scope:

- ▶ non-real estate capital assets such as IT, furniture and equipment, etc.; and
- ▶ a redesign of VBE's capital asset planning processes or tools. Note that EY provides some high level observations of potential improvements that can be made to VBE's project identification, development and implementation processes in section 6.5.

6.2.3 Methodology and approach

Objective I and II (see section 6.2.1) of this review largely overlap, particularly with regard to the discussion and review of surplus capacity. Accordingly, the team structured the review and presentation around the following five key components of the objectives, namely:

▶ Capital asset planning process	Section 6.5	Objective I
▶ Excess surplus capacity	Section 6.6	Objectives I and II
▶ Seismic Mitigation Program	Section 6.7	Objective I and II
▶ Deferred maintenance	Section 6.8	Objective I
▶ Non K-12 surplus assets	Section 6.9	Objective II

In addition to the above, section 6.10 outlines an estimate of the possible financial benefits available through actioning the recommendations contained herein.

6.3 Summary findings and recommendations by ministry objective

The following table details the most pertinent findings and recommendations that respond to the Ministerial Objectives:

Objective:	Review the short and long-term capital plan and forecast, including school capacity and utilization rates, and propose options for optimizing assets to benefit students	Section
Current state findings:	<p>Historic deficiencies in district-wide capital planning has hampered project identification and delayed project development and delivery, accentuating VBE's current excess surplus capacity, seismic risk and deferred maintenance challenges</p> <ul style="list-style-type: none"> ▶ VBE is currently preparing a Long Range Strategic Facilities Plan ▶ VBE instituting risk management processes to increase efficiency and performance 	6.5
	<p>Reducing VBE's surplus capacity (estimated to be 10,387 seats in SY2014/15) through a process of capacity rationalization will result in significant financial and non-financial benefits</p>	6.6
	<ul style="list-style-type: none"> ▶ Declining enrolment has resulted in utilization falling to 83%, well below MEd target of 95% ▶ As result, incremental cost of education is significantly higher in VBE compared to peers, as low utilization leads to higher overhead and support staff costs. 	6.7
	<ul style="list-style-type: none"> ▶ A targeted capacity rationalization approach will reduce SMP and deferred maintenance requirements and costs, and result in the generation of significant proceeds for reinvestment into the District's remaining schools to benefit students ▶ Reduction in excess surplus capacity could result in annual net cost savings of up to \$37M per annum from savings in student to support staff ratios and overhead costs. ▶ Potential one time benefits ranging from \$250M to \$750M 	6.8

Top recommendations:	VBE develop tools to assist it in identifying most appropriate schools for capacity rationalization, incorporating avoidance of SMP requirements, avoidance of deferred maintenance and opportunity for proceed generation into its selection criteria.	6.5
	VBE commit to considering an aggressive asset rationalization approach, estimated at up to 19 schools, capacity rationalization in its Strategic Plan, Capital Plan and Long Range Strategic Facilities Plan	6.6-6.8

Objective:	Review the district's capital assets including all buildings, leases, and real estate and identify opportunities to reduce leased space or surplus assets that provide no value to students	Section
Current state findings:	<ul style="list-style-type: none"> ▶ Significant progress achieved in reducing leases <ul style="list-style-type: none"> ▶ Since 2010, VBE has cancelled three leases, resulting in annual net cost savings of approximately \$665,000. ▶ VBE plans to cancel its two remaining leases, which will result in further annual net cost savings of approximately \$135,000. 	6.9.2
	<ul style="list-style-type: none"> ▶ Opportunities may exist to reduce costs and drive revenue/proceeds from VBE's non K-12 real estate, and K12 capacity rationalized lands (where anticipated), <ul style="list-style-type: none"> ▶ Currently very limited information available to quantify the opportunities available with respect to VBE's non K-12 real estate 	6.9.3
Top recommendations:	<ul style="list-style-type: none"> ▶ VBE relocate the Vinery and close Downtown East Adult Education Centre as planned. ▶ VBE immediately engage a real estate professional to conduct a market study and prepare a residual land valuation of its priority non-core lands to better inform decisions on its options, within a six month timeline including: <ul style="list-style-type: none"> ▶ Sale of redundant real estate; ▶ Retaining real estate until enrolment requires capacity. Such retention of the real estate could be in the form of: (i) green space; (ii) conversion to alternative social uses; or (iii) income producing property. 	6.9.2
	<ul style="list-style-type: none"> ▶ VBE to incorporate optimization of its non-core lands in its Long Range Facilities Plan 	6.9.3

The rest of this section 6 outlines the analysis supporting the capital asset management findings and recommendations.

6.4 Context

6.4.1 VBE's capital asset portfolio and initiatives

VBE's capital asset portfolio

VBE has a large aging capital asset portfolio that includes:

- ▶ 112 schools, 90 of which are over 50 years old, as detailed in the below table.

Table 6.1: Summary of District's schools				
Type of facility	Number of facilities	Average age of buildings	K-12 student enrolment*	Building area (m2)^
Elementary schools	78	77	27,411	351,378
Elementary annexes	16	48	1,546	24,462
Secondary schools	18	68	20,535	326,198
	112	73	49,492	702,038

^Source - 2013/2014 VBE Capital Plan, 2014/15 enrolment figures reported by MEd

- ▶ A portfolio of administrative and non-core real estate, as summarized in the below table:

Table 6.2: Summary of District's administrative and non-core real estate		
Type of facility	Description	Building area (m2)^
Head Office building	Located at 1580 West Broadway	18,981
Kingsgate Mall	Mount Pleasant Elementary school demolished in 1970s and repurposed. Currently subject to 99 year lease with Beedie Development Group	Not provided by VBE
South Hill Education Centre	Utilized for adult education and as a swing space. There are four other AE centres located in existing facilities at the schools	2,931
Ideal Mini School	Special program ran in facility on existing school grounds	973
Total Education	Special program ran in facility on existing school grounds	1,573

Table 6.2: Summary of District's administrative and non-core real estate		
Type of facility	Description	Building area (m2)^
Trade workshop	Headquarters for VBE maintenance staff and supplies	5,812
Nursery and grounds	Houses landscaping equipment and supplies	627
Shannon Park Annex	A retired elementary annex, which is leased to the Vancouver Hebrew Academy	898
		31,795

^Source - 2013/2014 VBE Capital Plan

- Other assets, including furniture and equipment, vehicles and computer software and hardware. For the purpose of this review these non-real estate assets were largely excluded.

6.4.2 Funding

Funding for the acquisition, upgrade and maintenance of the District's capital assets is shared between VBE and the Ministry. A summary of the District's typical annual funding is provided below:

	Funding (\$)
Ministry Annual Facilities Grants i.e. Approximately \$8.5M for capital facility upgrades and \$2M for general maintenance	\$10.5M pa
Ministry operating grants set aside by VBE for use by facilities department in school maintenance operations (including custodial, facilities and maintenance salaries and benefits, maintenance supplies, etc.)	\$50M pa (approx.)
Case by case, Ministry grants under Certificate of Approval system i.e. SMP upgrades, replacement schools, new schools, special projects	Varies
VBE's Local Capital Reserve i.e. Lease revenue generated on VBE's capital assets	\$1.2M pa (approx.)

VBE

VBE generates revenue from the sale and lease of its capital assets (approximately \$1.2M in SY2014/15) which is recorded in the Local Capital Reserve fund. The LCR can be redeployed on an as and when needed basis (following Board approval) to cover any shortfalls in Provincial funding or pay for capital projects not supported by the Ministry.

In addition to funds generated from its capital assets, VBE can transfer surpluses from its operations to the LCR for expenditure on capital projects. The VBE is projecting the LCR, which had an opening balance of \$3.9M in SY2013/14, will be fully depleted by the end of SY2014/15 as a result of Board approved transfers to cover operating deficits (approximately \$2.3M) and cost overruns associated with the construction of the International Village Elementary School (approximately \$2M). While we have not undertaken a working capital review of VBE to determine whether excess cash is available, we understand that VBE had over \$95M in cash on deposit with the Provincial Treasury's Certificate of Deposit program as at June 1, 2015.

Ministry of Education

Capital funding from the Province covers the vast majority of VBE's capital costs for site acquisition, new school construction, school additions, renovations and maintenance. This funding is provided through:

- ▶ School operating grants based on student enrolment;
- ▶ Projects approved through the capital plan (e.g. new schools, additions, replacements, renovations, seismic upgrades through the SMP, site acquisitions, and bus acquisitions);
- ▶ Special programs (e.g. Full Day Kindergarten, Building Envelope Program, Energy Efficient Mechanical Upgrades, and Public Sector Energy Conservation Agreement); and
- ▶ Annual Facilities Grants that are based on student enrolment. MEd puts a stipulation on a component of the AFG requiring it to be spent on facility upgrades (approximately \$8.5M in SY2014/15). The balance is provided for general facility maintenance costs (approximately \$2.0M in SY2014/15) and acts as a supplement to operational funding.

To obtain funding from the Ministry for specific capital projects under the Certificate of Approval process, the District is required to follow the process outlined in section 6.5.

6.4.3 Roles and responsibilities

The responsibility for planning and maintaining the District's capital asset portfolio is shared between VBE and the Ministry, with input from a number of other stakeholders, as detailed below:

Role	Responsibilities
Ministry of Education	<ul style="list-style-type: none">▶ Support the delivery of quality education by ensuring the availability of safe and functional schools, in a manner that makes the best use of public funds▶ Provide cost and policy standards for the design, construction and maintenance of schools▶ Allocate capital funds provincially, based on school district needs and government priorities, including the SMP
Vancouver School Board	<ul style="list-style-type: none">▶ Ensure school buildings and grounds are safe, secure and properly maintained, in a manner that makes the best use of available funds▶ Operate, maintain and utilize schools as efficiently as possible▶ Determine District's priorities based on current and projected needs and prepare capital plans and business cases for submission to the Ministry▶ Design / construct school buildings according to specified standards, including LEED Gold®
City of Vancouver	<ul style="list-style-type: none">▶ Provides information on urban planning initiatives that will affect enrolment▶ Permits and approves projects, including protection of heritage buildings through the Heritage Register

6.4.4 Guiding principles

In early 2012, VBE developed Guiding Principles to assist it in managing its competing capital asset management priorities. These Guiding Principles were approved by the Board in November 2012 and are current as of the date of this report.

VBE guiding principles	
1.	District capital plans should provide a priority for seismic projects
2.	VBE should recognize and preserve the best examples of schools on the heritage registry, within available funding limits, in consultation with the City of Vancouver and the Heritage Commission and the Province

VBE guiding principles	
3.	The priority of individual school seismic projects should be based on the highest percentage of area designated as H1 and H2 seismic risk and student population
4.	There should be a reasonable number of schools within each Family of Schools that can sustain a major earthquake event and be operational afterwards
5.	Opportunities to improve the educational adequacy should be a factor in replacing or upgrading schools
6.	Opportunities to significantly reduce the Facility Condition Index for schools should be a factor in developing capital plans
7.	There should be equity in terms of geographic distribution within the District for seismic capital projects over the length of the seismic program
8.	Opportunities to repurpose both school and non-school properties, in whole or in part, should be a factor in developing capital plan
9.	All high risk seismic projects should be completed by 2020, as originally proposed by the Province
10.	Plans for individual schools should be developed in consultation with the local community and school stakeholder groups

Source - VBE website May 2015

6.4.5 Overview of current state of VBE's capital asset management program

VBE has a number of critical priorities it needs to address in its short term and long term plans.

These key priorities, summarized in the table below, will be explained in detail in this report with accompanying recommendations on how they can be addressed.

Current state	Section
<p>Excess Surplus Capacity in Schools</p> <ul style="list-style-type: none"> ▶ Declining enrolment over recent years has led to an increase in excess surplus capacity estimated at 10,387 excess seats (SY2014/2015) which is a 4,000 seat increase since SY2009/10. ▶ VBE has not responded to this trend by reducing capacity, leading to a decline in utilization rates and an increase in the per student incremental cost of education. Excess surplus capacity is concentrated in the East-side of the District with 74% utilization whilst the West-side is operating at or near capacity. 	6.6
<p>Seismic Mitigation Program</p> <ul style="list-style-type: none"> ▶ The district has the largest number of schools (26% of the province total) requiring upgrade under the SMP. ▶ VBE has been slow to progress the development and implementation of these projects, with 10 of its current 29 projects still in pre-construction development more than 10 years after initial support from the Ministry. 	6.7
<p>Deferred Maintenance</p> <ul style="list-style-type: none"> ▶ The District has an aging portfolio of schools with rapidly escalating deferred maintenance costs estimated at \$700M SY2014/15 ▶ VBE does not have a robust, maintenance plan to assist it in identifying and addressing its maintenance priorities in the most efficient and cost effective manner, contributing to the worsening condition of its facilities, which are now well below the Province average. 	6.8
<p>Other Surplus Assets/Non-K12 real estate opportunities</p> <ul style="list-style-type: none"> ▶ VBE has a large portfolio of other real estate, which has the potential to generate significant proceeds for reinvestment into its schools. ▶ VBE has not undertaken independent real estate valuations to determine the extent of the opportunity available to it. 	6.9

6.5 Capital asset management planning process

6.5.1 Key findings

During EY's review of VBE's short-term and long-term capital plans and forecasts, we undertook a high level review of VBE's capital asset management planning process with a focus on capital project planning. We identified the following three findings, as well as eight VBE recommendations and three Ministerial recommendations:

Finding 6.1: Historic deficiencies in district-wide capital planning has delayed project identification

- ▶ Although VBE prepares and annually reviews a Five Year Capital Plan, there has been a historic lack of tactical tools or a single source of core information or data that provides clear information of district-wide needs, on which VBE leadership and the Board can base sound decision making.
- ▶ VBE is currently developing a Long Range Strategic Facilities Plan and accompanying tools to assist in addressing these historic deficiencies.

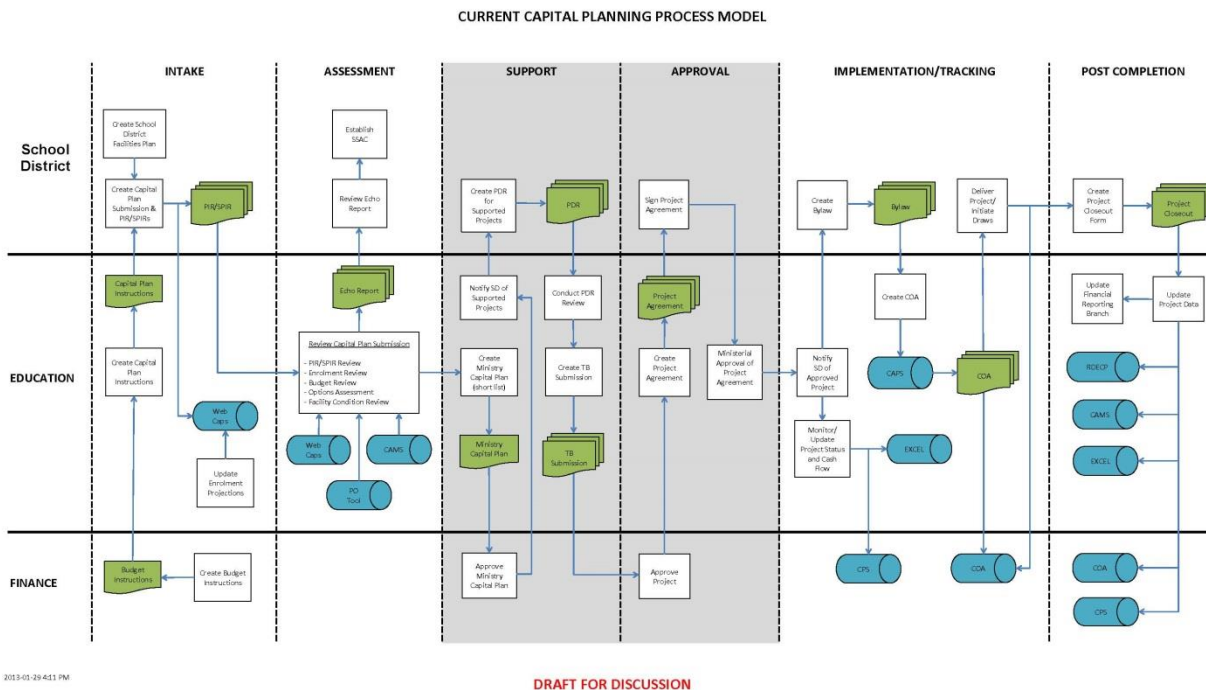
Finding 6.2: Project planning and development process has been inefficient

- ▶ VBE has been slow to advance its capital projects, especially those under SMP.
- ▶ It is likely the completion of the LRSFP and addition of the new Vancouver Project Office will improve VBE's performance in the development of its SMP projects.
- ▶ VBE is currently developing a Project Development Strategy and Work Plan that includes an accountability framework and time sensitive milestone measurement criteria.

Finding 6.3: Recent budget overruns in project implementation

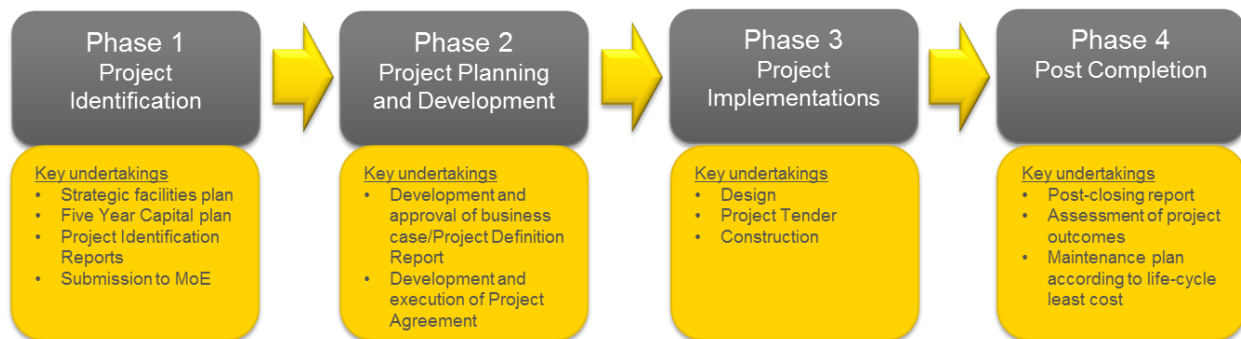
- ▶ For over a decade VBE largely delivered its projects to budget. In the last two years there have been notable budget overruns on a number of projects including International Village Elementary School and L'Ecole Bilingue Elementary School. These can be attributed to poor planning and risk management.

The following process model provides an in-depth overview of the activities and responsibilities relating to Capital Project assessment through to post completion:



^aSource - Ministry of Education, Planning and Major Projects, May 2015

It can be summarized as a four stage Capital Project Planning Process as detailed below.



This section will look at the first three stages of this process. For discussion of post completion and operations, see section 6.8.

6.5.3 Stage one - Project identification

In conjunction with its Guiding Principles, VBE assesses its capital asset needs based on a variety of factors including enrolment projections, facilities conditions and maintenance requirements. Based on this VBE develops a multi-year facilities plan.

VBE submits a rolling Five Year Capital Plan each year in accordance with section 142 of the *School Act*.

The Five Year Capital Plan typically incorporates VBE's capital asset priorities, including:

- ▶ New schools and major renovations;
- ▶ Projects under the Building Envelope Program and Mechanical/Energy system Upgrade Program; and
- ▶ Projects under the SMP.

In combination with the Five Year Capital Plan, VBE prepares and submits separate site specific Project Identification Reports (PIR) and Seismic Project Identification Reports (SPIR) to the Ministry for initial funding approval. The PIRs and SPIRs involve input from consultants and quantity surveyors and provide a preliminary assessment of an individual capital project, including a description of the overall project rationale, background information, existing building condition, potential project scope, possible project risks with mitigation strategies, and preliminary costs.

Historic planning deficiencies

In June 2010, the Office of the Comptroller General prepared and delivered a report to the Ministry of Education that *inter alia*, included findings from a review of VBE's capital asset planning approach.

The Comptroller's Report found VBE to be good at short-term planning but poor at long-range planning. The Comptroller noted that, VBE had no integrated strategic plan and no formal long term capital plan. As a consequence, the Comptroller concluded that VBE struggled to address competing priorities with respect to seismic upgrades, facilities management, projected enrolment and capacity forecasting.

Prior to the release of the Comptroller's Report, VBE had commissioned Coriolis Consulting Corp. in October 2009 to undertake a comprehensive assessment of the District's high seismic risk schools. The Coriolis Report provided VBE with comprehensive information on factors including educational fit, heritage, other physical conditions, projected enrolment and capacity issues and aimed to ultimately assist VBE in developing a long term capital plan to complete its remaining seismic upgrades in a timely and efficient manner.

The Coriolis Report was released in October 2011 and focused on 48 schools (from an initial list of 60 schools) that were at greatest seismic risk but had not yet reached the stage of detailed feasibility studies, Project Definition Reports or design. VBE used the Coriolis Report to shape its priorities in subsequent facilities plans, which were rolled into the three subsequent Five Year Capital Plans:

- ▶ 2010/11 Capital Plan covering the five years ended June 2015
- ▶ 2012/13 Capital Plan covering the five years ended June 2017

► 2013/14 Capital Plan covering the five years ended June 2018

As noted in section 6.4.5, VBE's critical issues persist despite the efforts of the above capital plans. The pace of completion of the SMP projects has continued to be slow, deferred maintenance has continued to escalate and the number of surplus seats in the District has increased by more than 4,000 (now exceeding 10,300) since 2010.

The reasons for these difficulties are numerous but appear to be in part due to a lack of tactical tools or a single source of core information that provides clear information on district-wide needs and that links the relationship between current and projected enrolment and capacity, facility condition, deferred maintenance, seismic risk, and other assessment variables. This has and continues to make it difficult for VBE to assess system needs, draft business cases and make evidence-based decisions.

Recommendation 6.1

VBE develop tactical tools to support the planning process, including those that support more efficient access to centrally held data which inform key planning decisions.

Recommendation 6.2

The Ministry consider providing stronger guidance to the District through clear policy guidelines and templates and tools to assist VBE to identify capital asset priorities. These could be applied province-wide.

Recent strides forward

In August 2014, following more than two years of consultation, VBE and MEd signed a Memorandum of Understanding for the Vancouver Project Office, which has been tasked with assisting VBE to expedite the planning and completion of all of the District's seismic upgrades pursuant to the SMP. The intent of the VPO, as outlined in the MOU, is that the VPO will function separately from VBE, with limited interaction with the district's day-to-day operations. The VPO will be led by a Director and staffed with resources provided by the Ministry. The VPO will answer to the VPO Steering Committee, a body with two representatives from each of VBE and the Ministry. A VPO Working Group, consisting of representatives from Partnerships BC, the Ministry and VBE, is to sit below the VPO Steering Committee, providing it with information on strategic facilities matters relating to the SMP.

The VPO has commenced initial operations, the VPO Working Group and VPO Steering Committee have been formed and the VPO Director, Janson Ho, was hired in March 2015.

As part of the MOU for the VPO, in addition to the current requirement to submit five-year capital plans, VBE is required to prepare and submit to the Ministry a LRSFP to ultimately achieve 95% capacity utilization in a manner that is as fiscally sound as possible. The MOU provides a deadline for completion of the LRSFP of June 30, 2015. VBE advised it is on track to meet this deadline.

Recommendation 6.3

VBE must complete the district-wide LRSFP and new Five Year Capital Plan as soon as possible.

VBE consider extending the LRSFP beyond its current 10 year scope in order to better inform long term decision making. Provinces such as Alberta and Ontario use a 10 year period as a basis for long range facilities planning, other districts in the Province (i.e. Surrey School Board) set plans based on enrolment projections that exceed 10 years. Given the size of VBE's capital asset portfolio, which is comparable to Surrey, adoption of a 20 year planning horizon that incorporates a rolling 10 year plan within would better inform long-term decision making.

6.5.4 Stage two - Project planning and development

After initial support is provided by the Ministry, VBE engages architects, consultants, the City of Vancouver, the schools and various other stakeholders to prepare a preliminary Project Definition Report (PDR). The preliminary PDR is reviewed by Committee II and sent back to VBE to draft a comprehensive PDR and Project Agreement (PA). This PA outlines the project scope and budget. Following approval of the comprehensive PDR, VBE coordinates extensive public consultation and holds an open house to discuss findings. Committee II then provides a recommendation to the Board. If approved, a by-law is created and the PA is submitted to the Ministry for review and execution.

An assessment of VBE's project development approach was not directly within EY's scope of this review but the outcomes of this stage have a direct impact on VBE's ability to effectively plan. Assuming VBE is able to address its biggest priority - development of an effective, district-wide plan that deals with the District's many challenges - the focus will shift to this next stage of its capital asset management program, project development.

VBE has failed to develop a number of its projects in a timely manner. The reasons for VBE's slow progress are a point of difference between the Ministry and VBE. Irrespective of the determination, the lack of progress appears to result from a combination of factors, including:

- ▶ VBE's lack of a strategic, district-wide LRSFP, resulting in an inability to identify its district-wide needs and look beyond a school-by-school basis;
- ▶ VBE's failure to implement risk management strategies to identify, avoid or mitigate capital risks;
- ▶ The large volume of SMP projects requiring completion, putting strain on VBE resources;
- ▶ The Ministry's lack of published policies and end to end tools to assist VBE in developing its project-by-project business cases;
- ▶ VBE's lack of business case templates leading to duplication of processes and effort that could otherwise be streamlined;
- ▶ VBE's preference to undertake the development process in-house and not utilize contractors with expertise to expedite the development process;
- ▶ The Ministry's lack of published policies with respect to funding of temporary accommodation and support for replacement over upgrade when a certain expenditure threshold is met;

- ▶ The lengthy consultation process within VBE which impedes rather than supports effective decision making; and
- ▶ VBE failing to obtain clarity of CoV's planning requirements.

The VPO will likely have a positive impact on VBE's ability to effectively plan and develop its SMP projects in a timely manner. The VPO will act as a valuable conduit between the Ministry and VBE to ensure both parties have a shared understanding of project requirements, which should ultimately expedite the development and approval process.

VBE, in consultation with the Ministry, VBE is currently developing a PDR Strategy and Work Plan which includes defined responsibilities of the various parties at each milestone. The PDR Strategy and Work Plan provide a target timeline for completion of each task.

Recommendation 6.4

The Project Definition Report Strategy and Work Plan need to be closely monitored. VBE (and VPO, where applicable) should track and report actual results against the target timeline in the PDR Strategy and Work Plan. This will enable VBE to assess if a further overhaul of its project planning and development strategy is required.

VBE use the PDR Strategy and Work Plan approach on all of its capital projects including non-seismic upgrades and renovations.

6.5.5 Stage three - Project implementation

Following execution of the PA, the Ministry provides VBE with a funding envelope based on the budget in the PA, based on costings in the PDR and the Ministry's prescribed construction costs. VBE then requests a project tender from its list of qualified bidders, assesses these submissions and selects a contractor.

VBE is then responsible for meeting the terms of the PA. VBE actively works with the contracted construction manager during the construction phase. VBE requests further drawdowns of funding from the Ministry per the terms of the PA. Any overruns over and above the contingency in the PA require further funding approval from the Ministry. If not supported, VBE is required to cover the shortfall through either the addition of its own funds or elimination of scope. Any savings realized in implementation against the budget in the PA are retained by VBE and can be utilized on its other capital projects.

VBE also arranges temporary accommodation (if needed and permitted) and construction mitigation measures are put into place to minimize school disruption and ensure site safety during construction.

Assessment of VBE's project implementation success was not directly within EY's scope of this review, but the outcomes of this stage have a direct impact on VBE's short term and long term capital plan.

Historically, VBE appears to be successful at managing its capital projects within the budget parameters set in the PA; however, the last two projects that were put to tender by VBE resulted in submissions that were significantly over the budget price in the PA (i.e. International Village

Elementary School and L'Ecole Bilingue Elementary School were each \$1.38M and \$2.31M over budget respectively).

VBE advised that these overruns were a result of:

- ▶ Increases in material costs as a result of the deterioration of the Canadian dollar against the US dollar; and
- ▶ Inflation in the Vancouver construction industry resulting in an increase in construction costs over and above the standard construction costs set by the Ministry in the PA.

While these assertions appear to have merit, if VBE had progressed to contract pricing earlier in the process, or progressed the projects at a faster rate, the impact of the overruns would have likely been reduced.

The overruns on these projects may also be a result of:

- ▶ VBE failing to implement risk management strategies to identify and minimize the extent of these overruns;
- ▶ VBE adding additional out-of-scope work to its requests for tender (e.g. the PA for International Village Elementary School envisaged a two-story building but design development resulted in four-story facility);
- ▶ VBE's preference to award Construction Management contracts which are typically more costly than industry best practice Design Build or Design Bid Build contracts; and
- ▶ VBE experiencing difficulties in obtaining clarity on planning requirements from the City of Vancouver.

Recommendation 6.5

VBE assess the benefits of alternative capital project delivery models and commit to the model that maximizes use of funds and gets best values for money.

Recommendation 6.6

VBE adopt a template school design standard (where appropriate) that is scaleable to capacity needs; thereby, limiting out-of-scope work and change orders. In addition, template construction allows for greatest cost certainty and more timely construction.

Recommendation 6.7

VBE establish proactive and clear communication with the City of Vancouver to clearly understand planning requirements.

Recommendation 6.8

The Ministry review current approach and look for improvement opportunities in validating the quantity surveying budget and explore the opportunity to coordinate a province-wide quantity surveying shared service.

Recommendation 6.9

The Ministry consider imposing standard province-wide monthly reporting requirements on construction progress to ensure it is kept apprised of performance against Project Agreements.

VBE uses a list of preferred bidders during procurement instead of open market tendering. This is unusual when compared to other school districts in the Province and may not result in the most competitive submissions being received. VBE should ensure that there are quality and value for money drivers instilled in the pre-qualified contractor agreements.

When queried as to why an open market approach was not followed, VBE advised that it was concerned at the risk that an open market request for tender would result in the selection of contractors who are unable to deliver the same quality and timeliness of its preferred bidders. This position has merit but VBE could mitigate this risk by requiring some form of surety from its selected contractor.

EY conducted interviews with representatives from the Central Okanagan and Surrey School Boards to validate the reasonableness of VBE's approach. The representatives from Surrey and Central Okanagan both advised that they use an open market process for tendering all large projects (Surrey's threshold is approximately \$300,000). Surrey advised that in their experience, this approach minimizes the appearance of preferential treatment in the process of contractor selections and enhances the value proposition for their school district.

VBE's current procurement approach leaves it open to criticism that it is not obtaining the maximum value from taxpayer funding.

Recommendation 6.10

In conjunction with Recommendation 6.5, VBE should change its procurement approach to align with common BC practice and industry best practice, by either:

- 1) moving to the open market tendering approach followed by the Surrey School Board and most other school districts in the Province, or
- 2) building into their pre-qualified bidders agreements more quality and value for money drivers.

Recommendation 6.11

VBE, where appropriate, procure services and delivery partners for multiple projects at a single time in order to gain economies of scale, consistency in quality and efficiencies in procurement and delivery costs and efforts.

Surrey advised that it has also experienced recent inflation in construction costs and in particular, inflation in material costs as a result of the decline in the Canadian currency. Surrey noted that if it were to experience a shortfall in funding as a result, it would generally address this shortfall with any available funds in its reserves or by eliminating scope from the tender.

The Ministry advised that it reviews standard construction costs semi-annually and it is likely this review will result in an increase in standard costs to account for recent inflation in material costs.

6.6 Excess surplus capacity

6.6.1 Key findings

VBE's greatest capital asset management priority should be addressing its current and projected excess surplus capacity. A plan to reduce the District's excess surplus capacity will provide the greatest financial and non-financial benefits to the District and also assist in addressing VBE's other capital asset priorities. Through our review of VBE's current excess surplus capacity, we identified the following three findings, as well as 14 VBE recommendations and one Ministerial recommendation.

Finding 6.4: Significant excess surplus capacity exists in the District's schools

- ▶ The recent decline in enrolment has resulted in an increase in surplus seats in the District's schools (estimated to be 10,387 seats in SY2014/15).
- ▶ Enrolment forecast is flat: the current level of excess surplus capacity is forecast to remain consistent over the next 10 years.
- ▶ Excess surplus capacity exists primarily in the District's East-side. The West-side is operating at a utilization rate that is above the Ministry's target.
- ▶ The District's excess surplus capacity will likely be reduced in the short term during the construction phase of the SMP. However VBE does not presently have a model to forecast this impact.

Finding 6.5: Reduction in excess surplus capacity will result in significant financial and non-financial benefits

- ▶ In light of escalating maintenance requirements and salary costs, it appears that VBE's current asset base is unsustainable. Operational cost cutting has reached a point where there are limited remaining opportunities for material recurring savings. Operational revenue opportunities, identified in section 5.4, are also unlikely to result in the generation of sufficient funding to address the increasing needs of VBE's schools.
- ▶ A reduction in VBE's excess surplus capacity could potentially result in significant financial benefits, including net annual cost savings of up to \$37M; one-time cost savings from avoided SMP upgrades of up to \$153M; one-time avoided deferred maintenance costs in the range of \$108M; and the potential generation of significant additional capital through real estate divestiture (such estimate is beyond the scope of this report).
- ▶ A reduction in VBE's excess surplus capacity will result in more resources for the remaining capacity, which should ultimately benefit student outcomes.

Finding 6.6: The main challenge to addressing excess surplus capacity has been removed

- ▶ Since 2010, VBE has not considered school closure as one of the options to reduce surplus capacity. Earlier this year, the Board did not extend its moratorium on school closure which subsequently lapsed. This move indicates a shift in the Board's position and paves the way for the possibility of school closure being considered in the near term.

6.6.2 Identification of excess surplus capacity

Recent decline in enrolment and utilization

Capacity, in the context of school facilities, is the total space available for students. It is calculated by taking the total number of classrooms available for occupancy in the District and multiplying it by the maximum number of students permitted in each classroom (calculated with reference to limits on the number of students per class and physical space requirements. These limits are both set by legislation in BC).

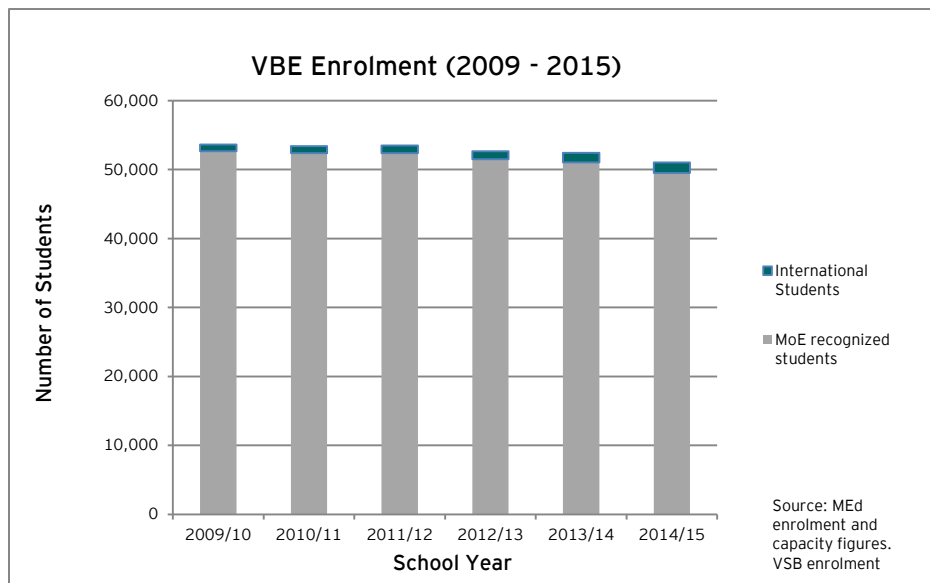
Utilization is defined as the use of this capacity. Utilization is calculated by taking the enrolment figures based on the Ministry's Form 1701 Student Enrolment Data and dividing it by the total capacity (at each student level).

During EY's review it became evident that there is a discrepancy between the Ministry's methodology for calculating enrolment for the purpose of utilization and VBE's approach. The Ministry calculates K-12 utilization based on students that are subject to Ministry funding, whereas VBE's utilization figures include the addition of its international students (1,546 in SY2014/15).

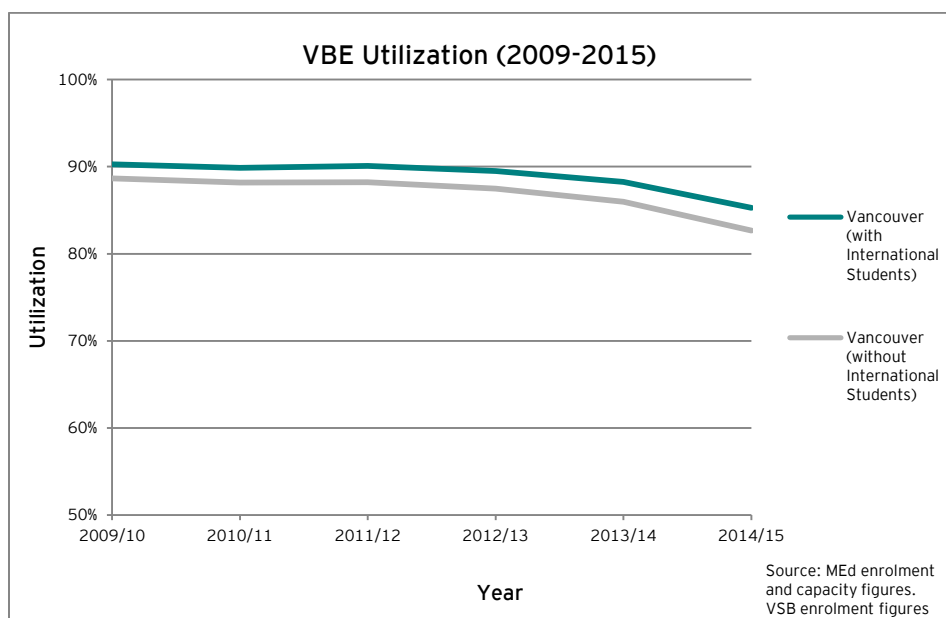
Recommendation 6.12

The Ministry consider inclusion of international students in its methodology for calculating utilization.

Consequently, the enrolment and utilization figures according to the Ministry approach have been slightly lower than reported by VBE, however, as detailed in the below charts, this discrepancy has had a fairly minor impact on overall utilization (less than 3%).



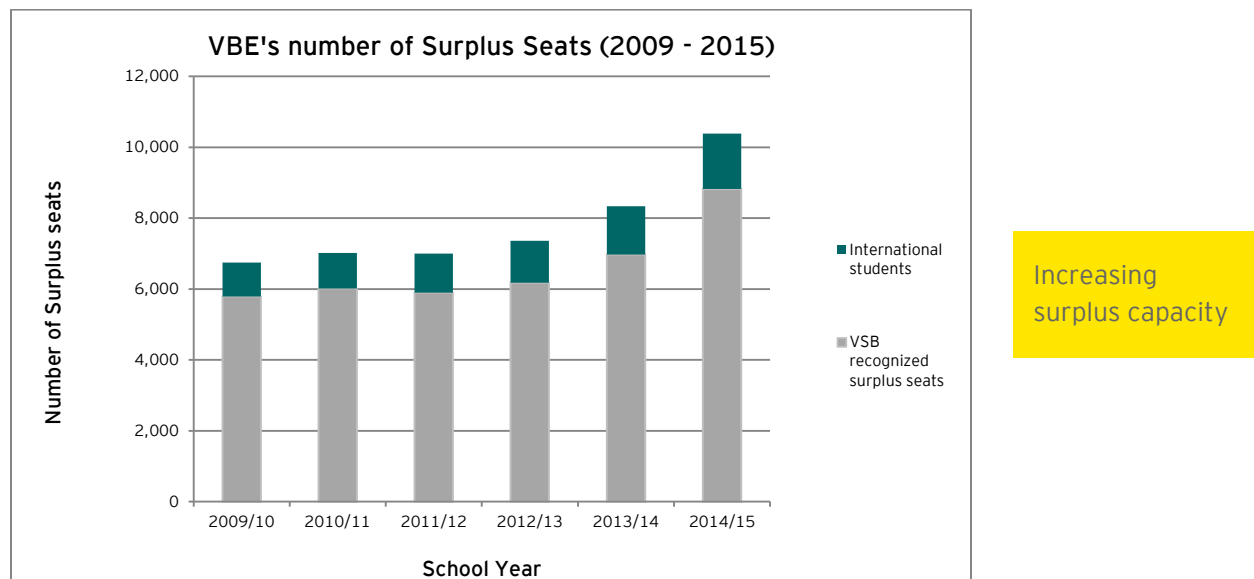
International student population is approximately 3% of enrolment



5% decline in utilization declining (2009-2015)

Under either approach, there has been a decline in utilization of approximately 5% over the last six years as a result of a decline in enrolment of approximately 2,500 students over that time.

In contrast, capacity has largely remained unchanged over the same period, resulting in an increase in surplus seats across the district, as detailed below.



The above chart shows international student seats when recognized in the District's overall surplus seat calculation. The Ministry's approach does not include the international students (represented in green) which are taking physical space in a classroom, resulting in an overstatement of the excess seats by 1,546 in SY2014/15. Whereas, if VBE approach was taken to calculate enrolment, there would still be 8,933 surplus seats in the District's schools in SY2014/15.

It is understood that the majority of these international students attend schools in the District's West-side and accordingly will have minimal impact on the excess surplus capacity in the East-side that can be reduced by capacity rationalization (see further discussion on distribution of excess surplus capacity below).

For the purpose of all further discussion and findings in this report, EY has used the Ministry's calculation of surplus seats (i.e. 10,387 in SY2014/15).

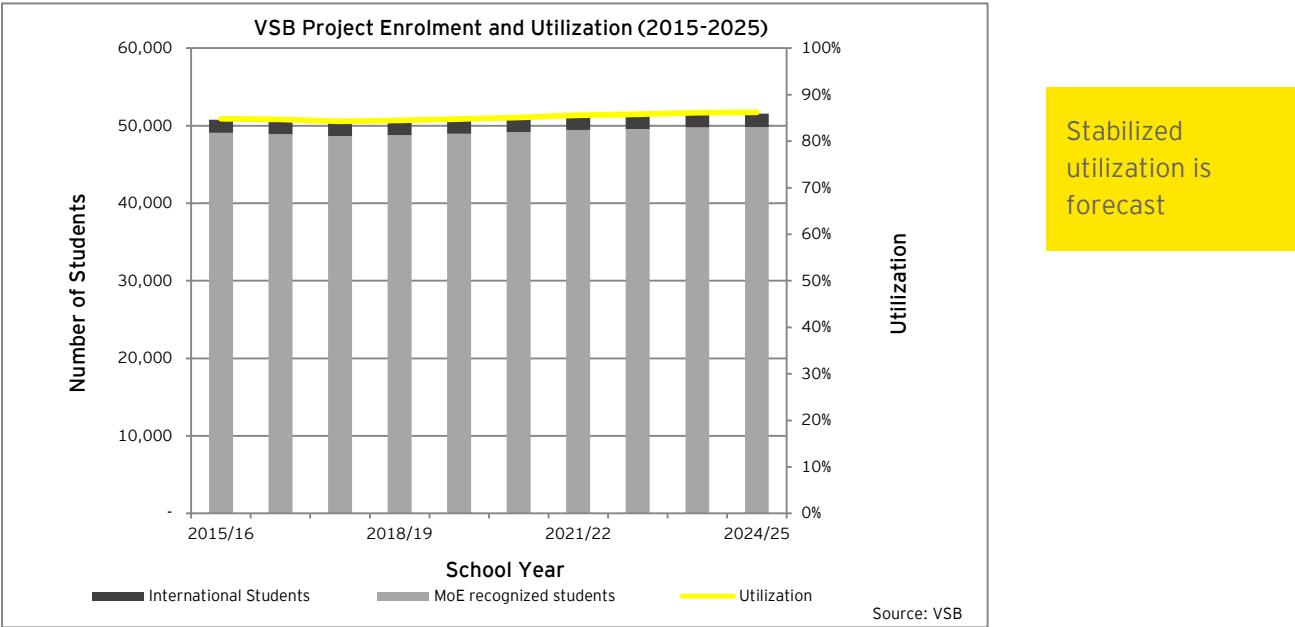
Projected stabilization of enrolment over the next 10 years

VBE forecasts enrolment using planning and statistics software from Baragar Systems, a Canadian company. Baragar uses census data from income tax returns completed in the District and extrapolates the findings out over a number of years according to trends. VBE then analyses this Baragar data and aligns its findings with information it receives from the City of Vancouver's urban planning department, which advises it of any new development approvals and the likely impact on student enrolment, i.e. family accommodation investments and transit changes. VBE then augments the Baragar data to ensure these other aspects are taken into account.

EY conducted a high level review of VBE's projected and actual enrolment and utilization results over the past six years and notes that VBE's projections have been consistently accurate.

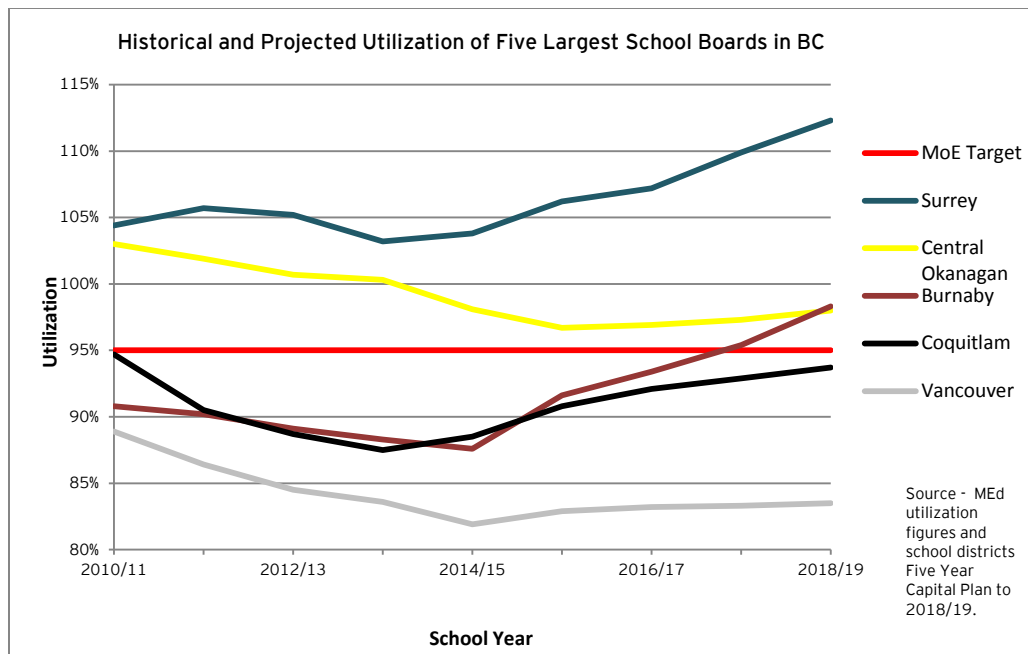
Despite the downward trend in enrolment over the past six years, VBE is forecasting a stabilization of the decline in enrolment by SY2017/18, and a recovery of enrolment up to SY2014/15 levels by SY2024/25.

A summary of the projected enrolment and utilization for the period SY2015/16 to SY2024/25 (inclusive of international students) is provided below. It is based on the assumption that current capacity remains relatively unchanged to 2025.



If capacity remains unchanged, the current level of 10,387 surplus seats (according to the Ministry’s calculation methodology) will remain largely unchanged and utilization will continue to be significantly below the Ministry target of 95%.

In addition to being well below the Ministry utilization target of 95%, VBE has a utilization rate well below the other largest districts in BC, which also have a notable upward trend in utilization in comparison to VBE’s largely unchanged trend. VBE’s utilization rate is projected to remain below these Subset Districts over the next four years as detailed below.



VBE has lower utilization when compared to its peers

It is important to note that, like VBE, these other districts also have international student populations not captured in the Ministry's utilization figures (e.g. Surrey has approximately 900 international students (SY2014/15) representing approximately 1.2% of additional unreported utilization).

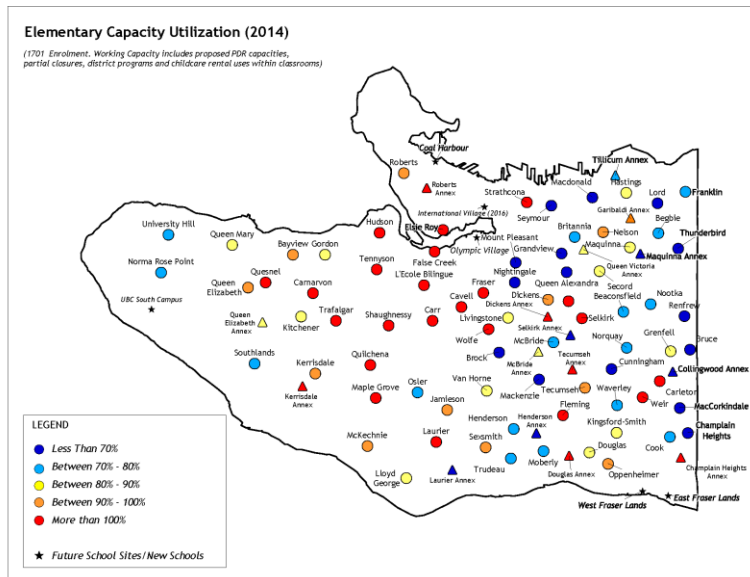
Uneven distribution of surplus capacity across the District

While the schools are spread evenly across the District, West-side schools generally experience higher utilization than East-side schools. The below table summarizes the utilization discrepancy between the West and East-sides in SY2014/15.

Table 6.3: Comparison of West-side and East-side utilization					
Type of facility	West-side schools/utilization		East-side schools/utilization		Total
Elementary schools and annexes	37	98.0%	57	74.3%	83.2%
Secondary schools	9	93.0%	9	73.4%	81.9%
	46	95.7%	66	74.0%	82.7%

The above table does not take into account the impact of the District's 1,546 international students (SY2014/15); however, as noted previously, it is understood that the majority of these international students attend West-side schools, so the utilization in East-side schools would remain largely unaffected.

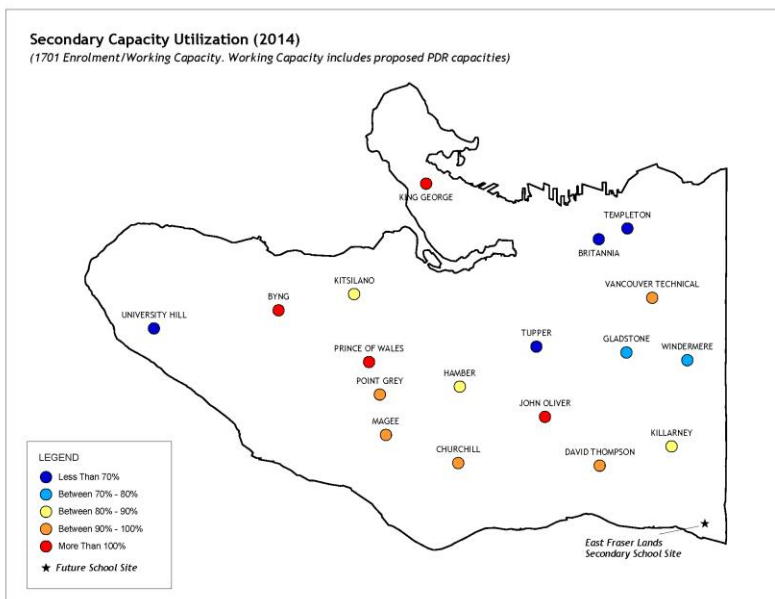
The following location map shows the distribution of surplus capacity based on VBE's 2014/15 K-7 utilization figures.



Low utilization in the east and high utilization in the west

There are significantly more elementary schools and annexes with less than 80% utilization in the East-side compared to the West-side. There are also significantly more elementary schools and annexes with more than 100% utilization in the West-side compared to the East-side.

The following location map shows the distribution of surplus capacity based on VBE's SY2014/15 secondary school utilization figures.



Low utilization in the east (74%) and high utilization in the west (95.7%)

Five of the six under-utilized secondary schools are in the East-side, with two pairs of these under-utilized East-side secondary schools in close proximity to each other (i.e. Britannia Secondary School and Templeton Secondary School; and Gladstone Secondary School and Windermere Secondary School).

SMP likely to impact available capacity

Construction during the SMP will result in the reduction of available capacity in the District in the short term. For further discussion on the extent of the SMP's impact on capacity, see section 6.7.3.

6.6.3 Approaches to reduce excess surplus capacity

VBE can implement a reduction in surplus capacity in its schools through:

- ▶ Increasing enrolment from outside the District (i.e. through increasing the number of international students). It is understood VBE is currently focusing effort on an approach to increase the number of international students in the East where the majority of the District's surplus capacity resides. These efforts include increased branding and promotion to the international market which has been historically West-side centric. VBE's performance with respect to international student enrolment was discussed in detail in section 5.4.5 and will not be revisited in this section;
- ▶ Closing schools in the East-side of the District;
- ▶ Reconfiguring and/or right-sizing existing schools to meet projected needs in each neighbourhood through reducing space at existing schools (through partial closure or repurposing), and/or through construction of entirely new facilities; and/or
- ▶ Capacity rationalization, an approach that combines school closure and right-sizing to optimize utilization.

6.6.4 Setting the limit of capacity rationalization for this report

For the purpose of this report, EY was required to quantify the potential financial benefits that could be achieved if VBE were able to meet its utilization target of 95%. This analysis required a significant number of assumptions, which EY was not able to properly validate without a deeper scenario based review. EY can provide a high level range of the potential financial benefits of capacity rationalization through undertaking a logical approach with the information provided by VBE.

The remainder of this section provides one approach to achieve the District's target utilization based on the available information. EY is not providing comment with respect to the availability of this approach and in particular notes that it should be understood within the context of section 6.6.9, which discusses the various considerations and challenges to implementing a capacity rationalization strategy, including the impact of construction during SMP upgrades.

Based on the District's current enrolment and capacity, there are 10,387 surplus seats in the District. As noted in section 6.6.2, VBE is projecting the level of enrolment will remain largely unchanged over the next 10 years. Accordingly, to achieve the MEd's utilization target of 95%, VBE must reduce existing capacity by 7,782, to reach its target of 2,605 surplus seats (i.e. 5% of permitted surplus capacity).

The below table shows the maximum number of schools that could be closed in the District, if an approach was taken using the average number of seats per facility-type and dividing this amount by the total number of SY2014/15 surplus seats at each facility-type.

Table 6.4: Maximum number of surplus schools based on District's SY2014/15 surplus seats and District's SY2014/15 average seats per facility type				
Description	Elementary annexes	Elementary schools	Secondary schools	Total
Total surplus seats	398	5,449	4,540	10,387
Average number of seats per facility	130	432	1,393	N/A
Maximum number of facilities VBE could close using District's average capacity (rounded)	2	11	2	15*
Remaining surplus seats after capacity rationalization	138	693	1,754	2,585
New utilization (district-wide)	91.8%	97.5%	92.1%	95.0%
* Approach uses the District's SY2014/15 surplus seats and divides this number by the District's SY2014/15 average number of seats per facility type.				

The assumptions that predicate the above are inappropriate for the purposes of quantifying the financial benefits of capacity rationalization. The reasons the assumptions are inappropriate include, but are not limited to, the following:

- ▶ West-side schools are included in the district-wide average seat figures even though there is currently no excess surplus capacity in the West-side and these schools would not be subject to closure;
- ▶ The capacity at each school differs greatly and an approach using averages may not be suitable;
- ▶ As detailed in section 6.6.5, the incremental cost of educating a student in an elementary annex is significantly higher compared to the incremental cost of education at elementary schools. Accordingly, an approach to reducing K-7 excess surplus capacity should include a preference for capacity rationalization at elementary annexes where possible;
- ▶ The ease of relocating students into other schools, or the availability of other schools in the neighbourhood, is not addressed. This could greatly impact the ability for capacity rationalization of all 15 schools given the uneven distribution of surplus capacity in the District (detailed in section 6.6.2);
- ▶ The approach does not account for the various other challenges to capacity rationalization identified and discussed in further detail in section 6.6.9. In particular, it does not account for the impact of SMP upgrades on the availability of capacity rationalization in the short-term.

A better approach, and the approach that will be adopted for the remainder of this capital review for quantification of the potential financial benefits of capacity rationalization, is one that identifies the number of schools required to increase utilization to 95%, and subsequently decrease excess surplus capacity to 5%, based on the following criteria:

- ▶ Low utilization, unless capacity is so insignificant that the impact would not affect absorption, or the sum of the other challenges (seismic and FCI condition) support inclusion;
- ▶ A preference for closure of elementary annexes over elementary schools to achieve the required reduction in K-7 capacity. As detailed in section 6.6.5, the incremental cost of educating a student in elementary annexes is significantly higher compared to elementary schools;
- ▶ A preference for schools with an FCI above the Provincial target of 0.43, unless the sum of the other challenges (seismic, utilization and capacity) support inclusion;
- ▶ A preference for schools requiring a seismic upgrade and not currently under construction or advanced development through SMP; and
- ▶ A high level attempt to take into account the availability of neighboring facilities to absorb student populations in the event of school closure. As noted previously, a deeper review is required to obtain a full understanding of the availability for student relocation.

The above approach resulted in the identification of up to a maximum of 19 East-side schools, collectively referred to as the Underutilized Schools, that could be subject to capacity rationalization to achieve the requisite reduction in excess surplus seats.

Table 6.5 : Underutilized schools			
School closure metric	Elementary annexes and schools	Secondary schools	Total
Surplus seats in East-side	5,583	3,781	9,364
Total surplus seats in District	5,847	4,540	10,387
Total capacity rationalization (seats)	4,854	2,850	7,704
Total remaining surplus seats (district-wide)	993	1,690	2,683
Maximum number of facilities VBE could potentially close using EY methodology (rounded)	17 (7 Annexes & 10 Elementary Schools)	2*	19*
New utilization (district-wide)	96.7%	92.4%	94.9%
<p>* Approach assumes the maximum number of facilities subject to capacity rationalization to achieve MEd's utilization target of 95% the District's Schools. The availability of capacity rationalization at all 19 Underutilized Schools is unclear and accordingly this table should be read in conjunction with the assumptions stipulated in within this report. The assumptions include the following:</p> <ol style="list-style-type: none"> 1. Low utilization, unless capacity is so insignificant that the impact would not affect absorption, or the sum of the other challenges (seismic and FCI condition) support inclusion; 2. Preference for closure of Elementary Annexes over Elementary Schools to achieve the required reduction in K-7 capacity. As detailed in section 6.6.5, the incremental cost of educating a student in an Elementary Annexes is significantly higher than when compared to an Elementary Schools; 3. FCI is above the Provincial target of 0.43, unless the sum of the other challenges (seismic, utilization and capacity) support inclusion; 4. Seismic upgrade is required and School is not currently under construction through SMP, unless capacity is so insignificant to justify inclusion, and 5. Available neighboring facilities to absorb student populations in the event of a closure. <p>More analysis is required and extensive review and consultation must be undertaken prior to action</p>			

This is one approach to achieving the reduction in surplus seats to arrive at MEd's target of 5% surplus capacity. As noted previously, VBE is still in the process of completing its long term enrolment projections and finalizing its plan to address the short-term impact of the SMP on existing capacity. EY is therefore unable to comment on the whether capacity rationalization at all the Underutilized Schools can be implemented in the short-term. For further discussion on the considerations that will impact capacity rationalization, see section 6.6.9.

6.6.5 Net annual cost savings through reducing surplus capacity

A reduction in excess surplus capacity in the District's schools and classrooms can result in significant net annual costs savings for VBE. It can result in a reduction in the incremental cost of education through:

- ▶ Reducing overhead costs including administrative and support staff, equipment maintenance, property taxes, supplies and other services;
- ▶ Reducing the physical space per student, resulting in an overall reduction in incremental costs that are driven by space (i.e. maintenance staff, maintenance supplies and utilities); and
- ▶ Increasing student to staff ratios, resulting in an overall reduction in staff costs (which currently represents approximately 92% of the district's operating expenditure).

Increasing student to staff ratios

At the beginning of 2015, VBE engaged a consultant to conduct a review and comparison of VBE's staffing levels to its peers, based on Ministry provided Form 1530 staffing statistics. The Staffing Levels Report found that VBE was significantly overstaffed in terms of student to support staff ratios when compared to Provincial averages and more tellingly, a sub-set of large school districts with similar characteristics to the District - Surrey, Central Okanagan, Coquitlam and Burnaby. The Staffing Levels Report found VBE currently has on a student to support staff ratio comparative basis:

- ▶ More than 200 staff in Facilities and Maintenance divisions than its Subset Districts;
- ▶ Higher levels of support staff than the Provincial average and Subset Districts;
- ▶ Approximately the same level of Principals and Vice Principals as the Subset Districts (the Provincial average is not an appropriate comparator given inclusion of a number of small school districts); and
- ▶ 115 more teachers than the Subset Districts.

If VBE were able to reduce surplus capacity and ultimately increase support staff and teaching staff levels to the levels of their peers, the net annual cost savings on salaries could be between \$21.1M and \$26.9M. Of this amount, the savings from support staff alone could be between \$13M and \$15.6M. This estimate is based on the following assumptions:

- ▶ VBE can operate at the equivalent level as the Subset Districts;
- ▶ VBE is able to reduce its existing support staff levels. It is understood there are collective bargaining agreements that may prevent this possibility in the short term; and
- ▶ The staff that will be reduced at each level will be the most junior and lowest paid. The high range estimate assumes a staff member with an average salary cost at each staff level will be reduced.

The calculation methodology is detailed in the below table.

Estimate of Annual Net Cost Savings from Increase in VBE Student to Staff Levels .						
Staffing Ratios Vancouver vs. Subset Districts Source: 2014 School Districts 1530 Reporting			Salary & Benefits range per employee		Potential annual net cost savings	
	Subset	Vancouver	Low	Average	Low	Average
Enrolment	160,701	50,341				
<u>Teachers</u>						
Current Level	9,150	2,981				
Student / Teacher Ratio	17.56	16.9				
If staffed at Subset Ratio		2,866				
FTE Under / (Over) Subset		(115)	\$ 73,590	\$ 98,650	\$ 8,443,301	\$ 11,318,543
<u>Educational Assistants</u>						
Current Level	2,801	885				
Student / EA Ratio	57.38	56.9				
If staffed at Subset Ratio		877				
FTE Under / (Over) Subset		(8)	\$ 49,670	\$ 60,080	\$ 380,148	\$ 459,820
<u>Principals/ Vice Principals</u>						
Current Level	620	196				
Student / P-VP Ratio	259.38	256.3				
If staffed at Subset Ratio		194				
FTE Under / (Over) Subset		(2)	\$ 114,010	\$ 150,140	\$ 263,537	\$ 347,053
<u>Excluded and Support Staff</u>						
Current Level	3,034	1,173				
Student / Excluded and Support Staff Ra	52.97	42.9				
If staffed at Subset Ratio		950				
FTE Under / (Over) Subset		(223)	Various	Various	\$ 12,100,567	\$ 14,801,105
Total FTE Under / (Over) Subset		(347)			\$ 21,187,553	\$ 26,926,522
* Based on current Square feet						

Source: Staffing Levels Report and VBE

Reducing the physical space per student

The Staffing Levels Report also noted that the physical space per student in the District was 157.1 square feet, which is well above the Subset Districts average of 122.7 square feet.

This has a direct impact on the number of maintenance staff and custodians that are required and is captured in the staffing level savings above.

In addition, it is likely the District's utilities and maintenance cost per student is far greater when compared to its peers. EY was not able to verify this assertion with easily obtainable comparable data from the other districts in the Province; however, it is a logical conclusion that a reduction in physical space will result in lower utilities and maintenance supplies costs, which were approximately \$8.4M and \$8M (district-wide) respectively in SY2013/14.

The estimated annual net cost savings from a reduction in physical space through school closure are addressed below, which incorporates savings from utilities and maintenance supplies.

Reducing overhead costs

The 2010 Comptroller's Report used a conservative approach based on VBE's estimates in its 2007/08 Financial Sustainability Plan dated December 11, 2007, to identify the estimated annual net cost savings from the closure of schools in the District. The Comptroller estimated annual net cost savings would be:

- ▶ \$6,000 for a portable
- ▶ \$190,000 for an elementary annex
- ▶ \$450,000 for an elementary school; and
- ▶ \$1.25M for a secondary school.

The Comptroller estimated that if the District could reduce all of its 5,796 excess spaces (as at SY2009/10), potential annual net cost savings would approach \$5.7M at that time.

Since VBE's estimated savings in SY2007/08 that underpin the Comptroller's Report in 2010, the number of excess spaces in the District's schools has increased to over 10,000, and salaries and benefits of staff have increased by approximately 10%. Utility costs have also risen by approximately 15%, so it is likely the potential annual savings are now well in excess of the Comptroller's 2010 estimate.

If we use the Comptroller's 2010 estimate of savings per student savings of \$983, and apply it to the current surplus seats, this approach would suggest the annual net cost savings are now more than \$10M, before any adjustment for salary, utilities and maintenance inflation is taken into account.

If we were to use the same approach as VBE did in SY2007/08 and apply it to SY2014/15 by adjusting for salary and benefits inflation of 10% and utilities inflation of 15%, the net annual cost savings could now exceed \$12M as detailed in the below table. This estimate is based on the following assumptions:

- ▶ The average cost savings per facility are reasonable. This will inevitably vary from facility to facility;
- ▶ VBE is able to reduce its staff numbers. It is understood there are collective bargaining agreements that may prevent this possibility in the short term;
- ▶ The staff reductions at each level are the most junior and lowest paid; and

- EY has adopted the approach in VBE's SY2007/08 estimate and not set aside a contingency of surplus seats.

Estimate of Annual Net Overhead Cost Savings from Maximum Number of School Closures							
	SY2007/08 VBE Estimate			SY2014/15 EY Estimate			TOTAL
	Annex	Elementary	Secondary	Annex	Elementary	Secondary	
Salaries and Benefits							
Principal/Vice Principal	47,000	170,000	265,000	51,700	187,000	291,500	
Office Clerical	49,000	70,000	200,000	53,900	77,000	220,000	
Supervision Aides	24,000	36,000	-	26,400	39,600	-	
Custodial	55,000	107,000	450,000	60,500	117,700	495,000	
Cafeteria	-	-	140,000	-	-	154,000	
	175,000	383,000	1,055,000	192,500	421,300	1,160,500	
Utilities	16,000	52,000	170,000	18,400	59,800	195,500	
Operations and Maintenance							
Supplies and services	9,000	40,000	103,000	9,000	40,000	103,000	
TOTAL ESTIMATED SAVINGS PER FACILITY	\$ 200,000	\$ 475,000	\$ 1,328,000	\$ 219,900	\$ 521,100	\$ 1,459,000	
Average number of spaces per facility	145	460	1,460	130	432	1,393	
ESTIMATED AVERAGE SAVINGS PER SPACE^	\$ 1,379	\$ 1,033	\$ 910	\$ 1,692	\$ 1,206	\$ 1,047	
Total number of surplus seats (SY2014/15)				398	5,449	4,540	10,387
TOTAL SAVINGS FROM CAPACITY RATIONALIZATION ON A PER STUDENT BASIS^				\$ 673,232	\$ 6,572,856	\$ 4,755,104	\$ 12,001,193
Total number of Underutilized Schools*				7	10	2	19
TOTAL SAVINGS FROM CAPACITY RATIONALIZATION OF ALL UNDERUTILIZED SCHOOLS*				\$ 1,539,300	\$ 5,211,000	\$ 2,918,000	\$ 9,668,300
Notes ^ Based on assumption full utilization can be achieved * Approach assumes the maximum number of facilities subject to capacity rationalization to achieve ME's utilization target of 95% the District's Schools. The availability of capacity rationalization at all 19 Schools is unclear and accordingly this table should be read in conjunction with the assumptions stipulated in within this report.							
				Source: VBE data and methodology applied by EY			

Summary of total annual savings

It is important to note, the 2007/08 FSP estimates and updated 2015 Cost Estimate do not account for the majority of staffing level savings resulting from increased student to support staff ratios (some of the administrative staffing costs and levels would be reflected in the above estimate). Accordingly, the realizable annual net cost savings, providing the displaced students can be absorbed into neighbouring schools is estimated to be in the range of up to \$37M per annum as detailed below. This estimate is before any one-time savings discussed in section 6.6.6 are taken into account. The following table presents the breakdown of the \$37M and includes the approximately \$10M of overhead savings as detailed in the above table.

Table 6.6: Summary of potential annual net cost savings from capacity rationalization

Cost savings opportunity	Potential annual cost opportunity
Increase student to support staff ratios to align with peer group	\$21M - \$27M pa
Increase student to physical space ratios to align with peer group	Unable to quantify
Reduction in overhead costs from retirement of surplus schools	Approx. \$10M pa
Potential financial benefits from aggressive capacity rationalization approach	In the range of up to \$37M pa

Recommendation 6.13

VBE conduct a thorough review of the current annual net cost savings related to a reduction in excess surplus capacity to support decisions on capacity rationalization. The review should include a study of the relationship of the physical space to the incremental cost of education and include scenario modelling.

6.6.6 One-time cost savings from reduction in excess surplus capacity

A reduction in excess surplus capacity through school closure will result in significant one-time cost savings through the avoidance of:

- ▶ Deferred maintenance (discussed in detail in section 6.8.4); and
- ▶ Seismic upgrades (discussed in detail in section 6.7.4).

6.6.7 Opportunities to generate revenue streams and proceeds from capacity rationalization

The Comptroller's 2010 estimate of \$5.7M in financial benefits from reducing surplus capacity did not include any analysis of proceeds or revenues that could be generated from retired and repurposed real estate. As a consequence, the Comptroller's high level estimate of financial benefits that could be derived was significantly understated.

Sale of surplus schools

Pursuant to sections 96 to 100 of the *School Act*, VBE is able to dispose of its real property provided it receives Ministerial consent. VBE is able to retain the proceeds from the sale or lease of its real property provided it owns the land, or has had it donated or endowed.

VBE holds the second largest portfolio of schools in the Province (behind the Surrey School Board) in one of the most expensive real estate jurisdictions in North America. VBE is therefore well positioned, compared to other school districts in the Province, to generate significant revenue through the disposition and/or repurposing and lease of its surplus and redundant real-estate property.

EY was requested to quantify the revenue opportunities related to the disposal of surplus assets. VBE advised that it did not have market valuations of its real estate, which is not unusual given the nature of capital assets which are non-financial and generally appraised according to value in use. VBE did provide EY with a summary of 2009 BC Assessment property valuation which suggest VBE's entire real property portfolio, inclusive of non-K12 real estate, exceeds \$3B. **It is important to note:**

1. Robust cost benefit analysis should be undertaken ahead of any decision to release surplus capacity, particularly K-12 assets. Capacity rationalization that releases surplus real estate could: i) result in the generation of significant proceeds; ii) make available such real estate to address other social needs; iii) be retained by the VBE on an interim basis as income producing property or otherwise, until such property is required to address future student needs based on long term enrolment expectations. Prior to implementing capacity rationalization there are a number of challenges and considerations that need to be considered, however, the major impediment, **the Board imposed moratorium on school closure, has recently been lifted**, paving the way for the possibility of school closure being considered in the near term.

EY is of the view that the LRSFP must consider as an element of its capacity needs, a rationalized approach to the use or divestiture of surplus and redundant real estate that considers the long term capacity needs of the District based on future enrolment expectations.

2. BC Assessment property valuations only forms an indicator of market value and should not be taken as the realization value in a fair market transaction.

Recommendation 6.14

VBE immediately engage a real estate professional to conduct a market study and prepare a valuation of its priority K-12 lands , and K12 capacity rationalized lands (where anticipated), to assist in a scenario planning process, within a six month timeline.

If the 2009 BC Assessment property valuations are taken, without adjustment, and these valuations are applied to the 19 underutilized schools (see section 6.6.4 for further discussion), the findings suggest there are considerable proceeds that can be generated from disposition following closure.

Table 6.7: Potential proceeds from divestiture of underutilized schools				
Description	Elementary annexes	Elementary schools	Secondary schools	Total
Number of facilities	7	10	2	19
Total estimated proceeds (2009 BC Assessment^)	\$55.4M	\$192.5M	\$110.9M	\$358.7M
<p>* Approach assumes the maximum number of facilities subject to capacity rationalization are realized upon. The availability of capacity rationalization at all 19 Schools is unclear and accordingly this table should be read in conjunction with the assumptions stipulated in within this report.</p> <p>^ 2009 BC Assessment property valuations may be inappropriate indicator of actual value.</p>				

As noted above, BC Assessment property valuations only provide an indication of value. There has been significant appreciation in the Vancouver property market since 2009, so **it is possible that the 2009 BC Assessment property valuations are significantly understated. It is also possible there are a number of other factors that result in the above estimate being overstated.**

Any analysis of potential proceed generation is high level and based on a number of assumptions that may or may not be appropriate. It is merely provided to illustrate the potential proceeds that could be generated from the sale of the District's Underutilized Schools.

These proceeds could be used to address the ailing condition of the District's other schools. Examples of how these sale proceeds could be spent include:

- ▶ Reinvestment into other school facilities to address deferred maintenance and lower the District's FCI to the Provincial average either through facility upgrades, partial renovations or full replacements;
- ▶ Use as a supplement to Ministry funding through the SMP to replace rather than upgrade SMP supported Schools;
- ▶ Use to fund the right-sizing and increase of capacity in school facilities in the West-side;
- ▶ Use to build new, better schools in the forecast growth channels along transit lines; and
- ▶ Investment in classroom supplies and programs to improve the quality of education delivery - discussed in further detail in section 6.6.8.

Recommendation 6.15

When assessing capacity rationalization, in addition to cost savings and the non-financial impact, VBE should include assessment criteria to evaluate the opportunities for the generation of proceeds from the retired or repurposed capital assets.

As a component of this capacity rationalization assessment, VBE must address future capacity requirements of the District based on long term enrolment expectations, and such must be a defined element and variable of the LRSFP.

VBE should use cost: benefit based scenario planning to assist it in its capital planning and to optimize its portfolio (i.e. sale and relocation).

Partial reduction of existing schools

It is understood that in addition to full dispositions of its property, VBE may have the opportunity to generate additional revenue through separating excess surplus capacity from the rest of the school and repurposing this closed space for sale or lease.

For example, it is understood that the CoV will provide funding assistance for the preservation of its heritage buildings through the provision of development incentives and planning bonuses (e.g. rezoning, density bonuses, etc.). VBE is currently devising a plan for the preservation of Carlton Elementary School (a Heritage “A” building) which involves the partial sale of land on VBE school property for a compatible use (i.e. senior living, child care, family accommodation, and retail).

In addition, it is also understood that the CoV is working with VBE on a plan to use VBE facilities to address its shortage of child care facilities. Accordingly, the opportunity to repurpose some additional existing surplus capacity may exist.

Recommendation 6.16

VBE continue to explore opportunities with the CoV to generate additional revenue on its capital assets.

6.6.8 Non-financial benefits to students

In addition to the financial benefits associated with a reduction in surplus capacity there are also a number of educational benefits gained by ensuring schools are operating efficiently and at high utilization rates.

Capacity rationalization will result in a larger student population at a school, which can result in the concentration of a greater amount of resources and an expanded network to support development.

In contrast, a number of considerations were raised in VBE’s 2010 School Closure Report that suggest operating in underutilized classrooms and schools will negatively impact a student’s education experience, including (but not limited to):

- ▶ As student enrolment decreases, it becomes more challenging (and expensive) to provide the full range of services required to run an effective educational program for students;
- ▶ Often schools are forced to organize into multi-grade classes which may make it very difficult for teachers to effectively and appropriately implement differentiated approaches and

- ▶ A school with low enrolment may also experience difficulty in staffing extra-curricular activities as there will be fewer teachers available to run these programs.

In addition, school facilities in poor condition, with high deferred maintenance, will also impact educational benefits when the facilities no longer provide a comfortable or safe environment for learning.

A rationalization of the District's excess surplus capacity can assist VBE in ensuring this does not happen, as rationalization will result in more funds becoming available to address the District's escalating deferred maintenance costs in its remaining schools, which should result in an improvement in the District's current facilities conditions. This view is predicated on the fact that a rationalization will not result in a reduction in Ministry funding, which is driven by student enrolment, and remain unchanged if the asset base is reduced. Capacity rationalization could also allow VBE to regenerate its LCR (which is forecast to be fully depleted by the end of the current school year).

As a final note, it is important to consider that while capacity rationalization may lead to higher class sizes (whilst remaining within acceptable ranges), EY's review of leading research found the impact of class size on student performance was generally inconclusive. When it comes to small differences in class size (e.g. 22 vs. 25 students) research suggested there is little to no impact on student achievement. What matters more, and what must be a point of emphasis throughout a capacity rationalization process, is ensuring that the District retains its highest performing teachers as teacher quality is the single biggest influencer of a student's academic achievement⁴.

Recommendation 6.17

VBE continue to assess the education impacts and benefits as part of any capacity rationalization, school consolidation or school closure business case.

6.6.9 Challenges to reducing surplus capacity

Impact on students

A portfolio plan to rationalize supply and demand across neighborhoods needs to consider academic performance. If VBE is going to close a school, VBE needs to also consider the impact this will have on the student population and in particular, high risk and special needs students. Ideally, there needs to be the availability of a school within close proximity. In addition, enrolment policies could also be used to even out demand across the District.

VBE is well placed with respect to the availability of neighbouring schools in the East-side of the District, as there are numerous alternative schools with capacity to absorb student populations within a 5km radius of the Underutilized Schools identified in section 6.6.2.

Upfront investment required for right-sizing

⁴“The Impact of Effective Teachers and Principals”, Partnership for Learning, 2010. Partnership for Learning is the education foundation of Washington state, a statewide nonprofit organization that communicates the need for all Washington's students to graduate from high school ready for career and college

There appear to be few impediments to undertaking right-sizing if VBE is able to effectively plan for projected demand in each neighbourhood.

Right-sizing may require increased planning consultation with the City of Vancouver when it involves repurposing and/or partial disposition.

Right-sizing, in conjunction with the SMP (detailed in section 6.7.4), may also require initial up-front investment. Accordingly, given VBE's limited surplus of available capital asset funds, it may need to be undertaken in conjunction with the proceeds and revenue generating strategies outlined in section 6.6.7.

School closure process

The Ministerial Order of September 3, 2008 regarding School Building Closure and Disposal, states that if VBE no longer requires property for educational purposes, the Board must seek the approval of the Minister prior to disposing of the property by sale and transfer or by a lease of 10 years or more, unless VBE is selling or leasing land or buildings to another board or independent school for educational purposes. The Ministry also requires the Board to engage in broad consultation and in enhanced planning regarding underutilized school buildings and other property owned prior to property disposition.

VBE's regulations appear to meet the Ministry's requirements. VBE process is as follows:

- 1) Preparation of a preliminary list
The District Management Team will prepare a preliminary list of schools that might be considered for closure, and post that list on VBE website to give affected parties advance notice of the consultation process that will apply if the Board decides to consider those or any other schools for closure.
- 2) Administrative report from the District Management Team
An administrative report from the District Management Team detailing what schools are being considered for closure will be presented to a joint meeting of Board Standing Committee II - Planning & Facilities and Standing Committee III - Education and Student Services.
- 3) Board advised of schools considered for closure
If consideration for closure is supported by the joint committee, then such recommendation will be forwarded to the next available Board meeting for decision.
- 4) School is notified
Any school being considered for closure will be identified and notified.
- 5) Public consultation process
Communication and consultation will include both the school community (staff, students and parents) as well as the general public. Appropriate mechanisms will be provided within the consultation process to allow feedback from both the school community and the public prior to the decision on closure being made.

6) Board decision

Any decision to close a school will be promptly communicated to both the school and the general public.

This rigorous process has typically taken VBE from one to two years to complete, making expedient school closure challenging. This could ultimately impact the ability of the Board to effect rapid change to address the financial challenges caused by excess surplus capacity in the District.

For example, in 2010, VBE commissioned a series of School Closure Reports that examined 11 schools for possible closure. From that preliminary list, five Schools progressed to the public consultation phase; however, following completion of the public consultation process and an outpouring of public sentiment to retain the schools earmarked for closure, VBE elected to extend its moratorium on school closure until 2015.

Earlier this year, the Board lifted the moratorium on school closure. This move indicates a shift in the Board's position and paves the way for the possibility of capacity rationalization being added to the agenda in the near term.

Recommendation 6.18

VBE commit to considering capacity rationalization in its Strategic Plan, Capital Plan and Long Range Strategic Facilities Plan.

VBE to update its Guiding Principles to reflect its district-wide utilization target of 95%.

Recommendation 6.19

Board provide guidance to District Management Team on criteria for inclusion of school on the Preliminary List. These criteria should include school performance, student engagement measures, current and projected utilization, incremental operating costs per student, facility condition and seismic risk.

Recommendation 6.20

VBE should undertake school closure process simultaneously for multiple schools identified in the Preliminary List.

Recommendation 6.21

VBE consider changes to its school closure protocol to increase timeliness of decision making and realization of the financial and non-financial benefits available through capacity rationalization.

Some annual cost retained if surplus schools not sold

If a closed school is retained by VBE, there will still be a number of residual annual costs, including maintenance, security, property taxes, and insurance.

These costs can be mitigated or completely avoided if VBE is able to repurpose the closed school and lease the retained space to a third party in a timely manner.

Recommendation 6.22

VBE include analysis of sale, lease and retention options in its assessment of capacity rationalization.

Access to sale proceeds

In the event the closed school is sold, VBE has indicated concern that it would not be able to access the proceeds or it would receive less Ministerial funding support if it were holding a large surplus of funds from its disposal of surplus Schools.

From EY's discussions with Ministry representatives, it appears the Ministry would be supportive of VBE using these funds to upgrade the balance of its facilities through facility upgrades and replacements without a reciprocal reduction in the following year's Ministerial funding. Further, as Ministerial funding is based on enrolment, there appears to be no mechanism by which the Ministry could take this approach.

Recommendation 6.23

VBE and the Ministry agree on the availability of proceeds and impact on future funding in advance of a decision to undertake capacity rationalization.

Need for space during SMP upgrades

The need for the existing excess surplus capacity during the SMP upgrades may be one of the major limiting factors to an aggressive, capacity rationalization approach in the short term. This issue is discussed in detail in section 6.7.3.

Need to maintain a contingency of schools

EY's analysis with respect to cost savings and revenue generation has generally assumed a very aggressive rationalization approach where a maximum reduction in capacity is undertaken to achieve its utilization target of 95%.

While VBE is projecting stable enrolment over the next 10 years, the longer term enrolment forecast is currently under development in conjunction with VBE's LRSFP. Once a school facility is closed and sold, it may be very difficult to acquire more land to build a school if required in the future given the lack of land in Vancouver, rising land prices and competition for land from residential, commercial and industrial land developers.

There may be the ability to increase capacity at the District's existing schools; however, EY was unable to make an assessment based on the information provided.

Recommendation 6.24

VBE undertake an assessment of capacity in school lands to understand options for generating additional future on-site capacity (e.g. new buildings at existing school, additional levels to existing

buildings).

6.7 Seismic mitigation program

6.7.1 Key findings

VBE has the largest number of SMP projects in BC and has been publically criticized for its slow progress since the commencement of the SMP in 2005. The primary Ministerial objective for the SMP is student safety: It is not a building improvement program. Through the review of the SMP planning process and interface with excess surplus capacity, we identified the following two findings, as well as three VBE recommendations and two Ministerial recommendations.

Finding 6.7: The District has been slow to complete SMP projects

- ▶ The District has by far the most SMP projects in the Province in absolute and percentage terms.
- ▶ The District's project development and implementation deficiencies identified in section 6.5 has impeded its ability to address these projects in a timely manner.
- ▶ VBE's lack of a temporary accommodation plan during SMP construction has made it difficult to support a business case for capacity rationalization in the short-term.

Finding 6.8: Capacity rationalization will optimize the Ministry's SMP expenditure

- ▶ An effective capacity rationalization approach will result in the optimization of the Ministry's SMP funds through the avoidance of unnecessary projects currently supported or required under the SMP.
- ▶ An effective capacity rationalization approach can also result in VBE optimizing the use of SMP grants by supplementing these with its own funds to undertake replacement projects that right-size existing schools.

6.7.2 Extent of VBE's SMP requirements

The District has the largest number of SMP projects in the Province and a significantly higher number of SMP projects than its peers, as summarized in the table below.

Table 6.8: Summary of VBE's SMP progress compared to subset districts						
Entity	Total required	Completed	To Be Completed			
			Total	Construction commenced	Funded	Not yet funded
Province	339	145	194	11	57	126
Vancouver	89	20	69	4	25	40
Vancouver % of BC total	26%	13%	35%	36%	43%	32%
Surrey	28	20	1	1	—	7
Central Okanagan	—	—	—	—	—	—
Coquitlam	32	18	1	1	5	8
Burnaby	30	7	—	—	—	19

*Source - MEd Seismic Mitigation Program Progress Report, January 2015

To date, the pace of completion of VBE's SMP projects has been slow. Of the 29 projects that are currently funded by the Ministry, all 29 received initial Ministry funding support on or before April 2013, yet only four are currently in the construction phase. 10 of these 29 projects have been in development for more than 10 years from the date of initial Ministry funding approval.

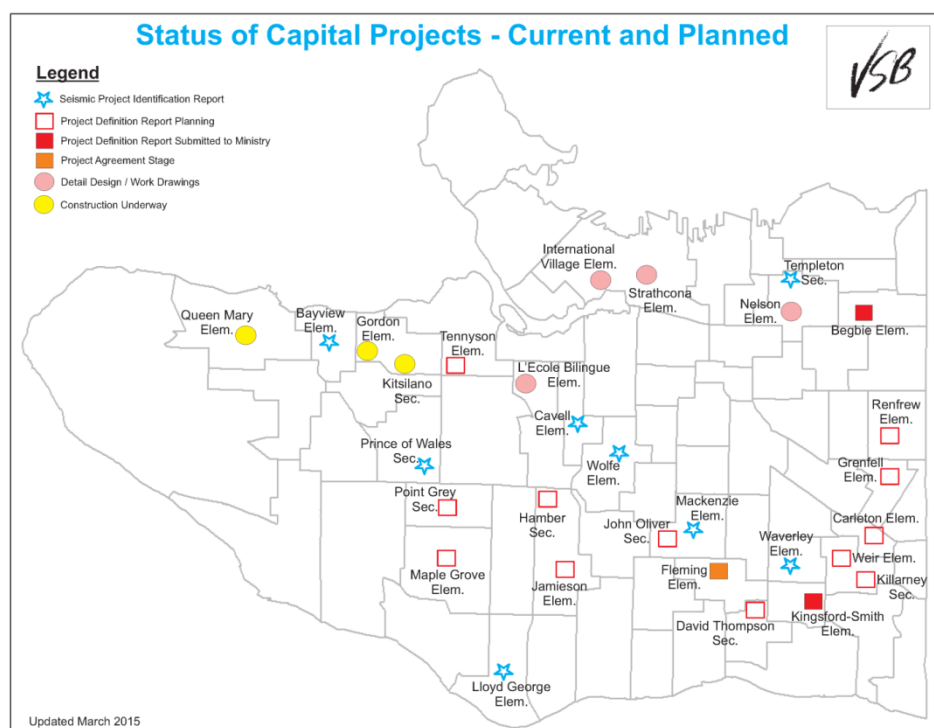
VBE advises it is estimating on average, each seismic upgrade or replacement will take approximately two years to complete. Accordingly, the SMP will likely have a significant impact on district-wide utilization rates as it is likely there will be a significant reduction in capacity/surplus seats while construction is underway. In particular, almost all of the District's secondary schools require upgrade under the SMP as detailed in the below table.

Table 6.9: Summary of District's SMP projects by facility type

Type of facility	Elementary schools	Elementary school annexes	Secondary schools
Under development/construction	5	-	1
Supported for construction	16	-	7
Not yet funded but requiring seismic upgrade (Higher risk - H1 and H2)	18	1	5
Not yet funded but requiring seismic upgrade (Lower risk - H3)	10	5	1
Total SMP/total VBE schools (69/112)	49/78	6/16	14/18

*Source - MEd Seismic Mitigation Program Progress Report, January 2015

The projects currently supported by the Ministry are spread evenly throughout the district, as detailed in the below map (note, the 30th school is International Village Elementary School which is a new build and a SMP project).



Numerous schools subject to supported SMP upgrades in close proximity

6.7.3 Impact of SMP projects on reduction of excess surplus capacity

The likely need for the existing excess surplus capacity as “swing space” during the completion of upgrades under the SMP is one of the main reasons cited by VBE for why school capacity rationalization is significantly limited in the short term.

As a component of VBE’s LRSFP, VBE is in the process of devising a plan to house the students of the schools being upgraded under the SMP during the upgrade period. In February 2015, VBE prepared and circulated a draft Proposed Plan for Temporary Accommodation, which proposes a number of options for dealing with the logistical issues presented by undertaking all the necessary seismic upgrades.

The Temporary Accommodation Plan provided seven available options and then analyzed the benefits and shortfalls of each option. The options VBE provided include:

1. Use of existing swing sites and creation of a new swing site;
2. Clustering host schools;
3. Use of vacated buildings to house students during upgrades;
4. Repurpose annexes as swing space/host schools;
5. Repurpose elementary schools with low utilization as swing space;
6. Repurpose secondary schools with low capacity utilization as elementary swing space; and
7. Use rental space

The Temporary Accommodation Plan is the first step in a process to address this challenge. It only provides the menu of options and does not recommend, or advocate, for one approach over another. In its current form, the Temporary Accommodation Plan does not provide scenario analyses to support one approach over another. VBE advises that once the Board has responded to the options available, VBE will provide a formal plan to overcome the capacity issues created by seismic mitigation.

VBE has advised that it would prefer to keep student populations in their existing school facilities during the SMP (where possible) but is unable to do so because it does not have the funding to purchase the additional temporary accommodation that is required.

Recommendation 6.25

VBE prepare scenario analysis models to assess the variance impacts on available capacity during the SMP. Holistic analysis needs to be undertaken based on the results including both costs savings and proceeds that can be generated from school closure that becomes available with the provision of temporary accommodation.

VBE should track the trend of student movement from non-upgraded schools to new seismically upgraded schools to determine whether a correlation exists between enrolment and facility upgrades. This will help support future decisions around closures and replacement over upgrade.

Recommendation 6.26

Where VBE is able to show a benefit, the Ministry should consider providing funding support for temporary accommodation during SMP upgrades to enable immediate closure of excess capacity.

Several schools could be considered for closure in the short term irrespective of the determination of the district-wide impact of the SMP on capacity.

Of the 16 active elementary annexes in the District, eight have utilization that is less than 75% based on SY2014/15 enrolment and capacity, and seven of these eight elementary annexes have a total school population of less than 100 students. If an approach were taken where the seven elementary annexes identified as Underutilized Schools in section 6.6.4 were closed immediately, the resulting reduction in District wide capacity would be only 969 seats, increasing the utilization by approximately 1.5%. Using the average projected net annual savings from overhead costs of approximately \$220,000 per Elementary Annex (discussed in further detail in section 6.6.5), the District would save approximately \$1.5M per annum.

In addition to these Elementary Annexes, the 2010 School Closure Report also identified the following Elementary Schools for closure.

Table 6.10 :Updated savings from schools in VBE's 2010 school closure report

Elementary school	Enrolment	Ministry utilization	Seismic rating	2010 VBE projected annual saving
Sir William MacDonald	68	25%	H1 - Not yet funded	\$275,000
Sir Guy Carleton	309	54%	H1 - Funded	\$470,000
Queen Alexandra	186	62%	H1 - Not yet funded	\$360,000
Total	563			\$1,105,000

Source - Estimated savings from VBE 2010 School Closure Report.

There has been no improvement in enrolment at these three schools since 2010, they carry collective deferred maintenance costs in excess of \$13M and are all earmarked for upgrades under the SMP (which will not address their respective deferred maintenance issues). If these elementary schools were closed, in addition to the savings from avoided deferred maintenance and SMP upgrades, the net annual cost savings to VBE (which was estimated to be approximately \$1.1M (in 2010)) would now likely exceed \$1.5M using the methodology outlined in 6.5.5. Assuming these 563 students can be absorbed into neighbouring schools with capacity, the District's utilization would increase by approximately 1.2%. Further savings would result from an increase in student to staff ratios across the District.

It is understood project development for the SMP upgrade at Sir Guy Carleton Elementary School has progressed since 2010 and it may no longer be a suitable candidate for rationalization. On this basis, it was not included as one of the Underutilized Schools in EY's analysis.

6.7.4 Optimizing the Ministry's SMP funding

Reducing number of required SMP projects

The purpose of the SMP is to reduce risk of building failure at schools in the event of an earthquake. This objective is central to both the Ministry and VBE's fundamental capital asset management role of supporting the delivery of quality education by ensuring the availability of safe and functional schools, in a manner that makes the best use of public funds.

Total SMP funding is limited to a fixed pool of money and MEd general provides funds in order of priority according to those schools at greatest risk. Any savings that can be achieved in completion or avoidance of one project will be utilized elsewhere to address other lower priority schools.

With these principles in mind, and keeping in mind objective I and II of this stream's engagement, EY attempted to quantify the potential SMP savings that could be achieved through capacity rationalization that involved an approach to avoid unnecessary SMP upgrades. EY was not provided recent data to analyze and quantify these potential savings if SMP upgrades are avoided at 16 of the 19 Underutilized Schools identified in 6.6.2; however, EY was provided with cost estimates from 2007 for each seismic upgrade or replacement, which can be used to provide a preliminary, high level indication of the potential opportunity. Where the replacement value exceeded the cost of an upgrade in 2007, EY has updated the replacement value to reflect the 2015 VFA condition assessment provided to it by VBE. The results of this approach are provided below.

Table 6.11: Potential savings from avoidance of SMP upgrades in underutilized schools				
School closure metric	Elementary annexes	Elementary schools	Secondary schools	Total
Maximum number of facilities for capacity rationalization	7	10	2	19*
SMP upgrades avoided	4	10	2	16*
Total potential SMP savings	\$8.1M	\$70.6M	\$74.1M	\$152.8M[^]
* Approach assumes the maximum number of facilities subject to capacity rationalization to achieve MEd's utilization target of 95% the District's schools. The availability of capacity rationalization at all 19 Underutilized Schools is unclear and accordingly this table should be read in conjunction with the assumptions stipulated in within this report.				
[^] Estimate is based on 2007 estimate of SMP upgrade construction costs, unless replacement required. Replacement is based on 2015 VFA assessment of replacement value.				

It should be noted that this estimate in potential savings does not account for inflation in the cost of development and construction since the 2007 estimate. It also does not take into account the opportunity cost of staffing resources at VBE that could otherwise be deployed in addressing the District's other facilities challenges. Accordingly, the potential SMP savings in a scenario where an

aggressive capacity rationalization approach is taken and the SMP upgrade is avoided could be well in excess of \$153M.

The SMP funds saved from the avoidance of these projects could be better utilized in addressing the District's other 40 high risk schools not currently funded under the SMP.

Recommendation 6.27

VBE assess opportunities to avoid SMP projects in its capacity rationalization criteria.

Right-sizing of schools with SMP grants

VBE has expressed its desire to use the Ministry supported upgrades under the SMP to reconfigure its portfolio by downsizing or right-sizing its class rooms and schools to match projected enrolment and ultimately maximize utilization. VBE purports that this approach, especially when a replacement is chosen over an upgrade, will also result in an increase in cost efficiency and a lowering in the structural costs that are driven by physical space, including maintenance salaries, utility costs, and annual maintenance supply costs. In addition, when a replacement is selected and undertaken over an upgrade, the deferred maintenance costs discussed in detail in section 6.8 will be completely eliminated at that facility.

EY requested information from VBE to support the successes of its right-sizing approach to date, including details of the reduction in square foot building space, total number of classrooms, utility costs and maintenance costs. VBE was unable to provide this information in the time available, resulting in EY being unable to verify the purported improvement in financial terms.

It is important to note, regardless of the determination of the effectiveness of an upgrade over replacement, the purpose of funding allocated to MEd for the SMP is to address seismic risk: SMP funds were not intended to be used for building improvements. While the Ministry does not provide funding for replacement if the cost to upgrade the facility is lower than the cost to replace it, VBE is able to supplement the Ministry's upgrade grant with its own funding and undertake a replacement. VBE currently has limited funds available to supplement MEd funding but it does have significant proceed generating potential if it undertakes an aggressive capacity rationalization approach (discussed in further detail in section 6.6.4). Accordingly, it appears to have the power to adopt its preferred approach in conjunction with capital asset realizations.

Recommendation 6.28

VBE track the impact of right-sizing under the SMP to assist it in identifying further opportunities and also to support future decisions weighing replacement against seismic upgrade. VBE should also undertake a cost benefit analysis when assessing the appropriateness of replacement over seismic upgrade.

6.8 Deferred maintenance

6.8.1 Key findings

At the current trajectory, the District's rapidly escalating deferred maintenance should be one of VBE's key priorities, yet VBE's maintenance expenditure has remained largely unchanged over the last five years. Through this review, we identified the following three findings, as well as three VBE recommendations.

Finding 6.9: The condition of the District's schools is below the provincial average

- ▶ The District's schools are amongst the oldest in the Province, with deferred maintenance costs exceeding \$700M based on worst case scenario VFA facility condition assessments.
- ▶ The District's overall average Facility's Condition Index of 0.48 is above the Provincial Average of 0.43, indicating the current state of the District's facilities is below the Provincial Average.

Finding 6.10: VBE does not have a robust, maintenance plan to assist it in identifying and addressing its maintenance priorities

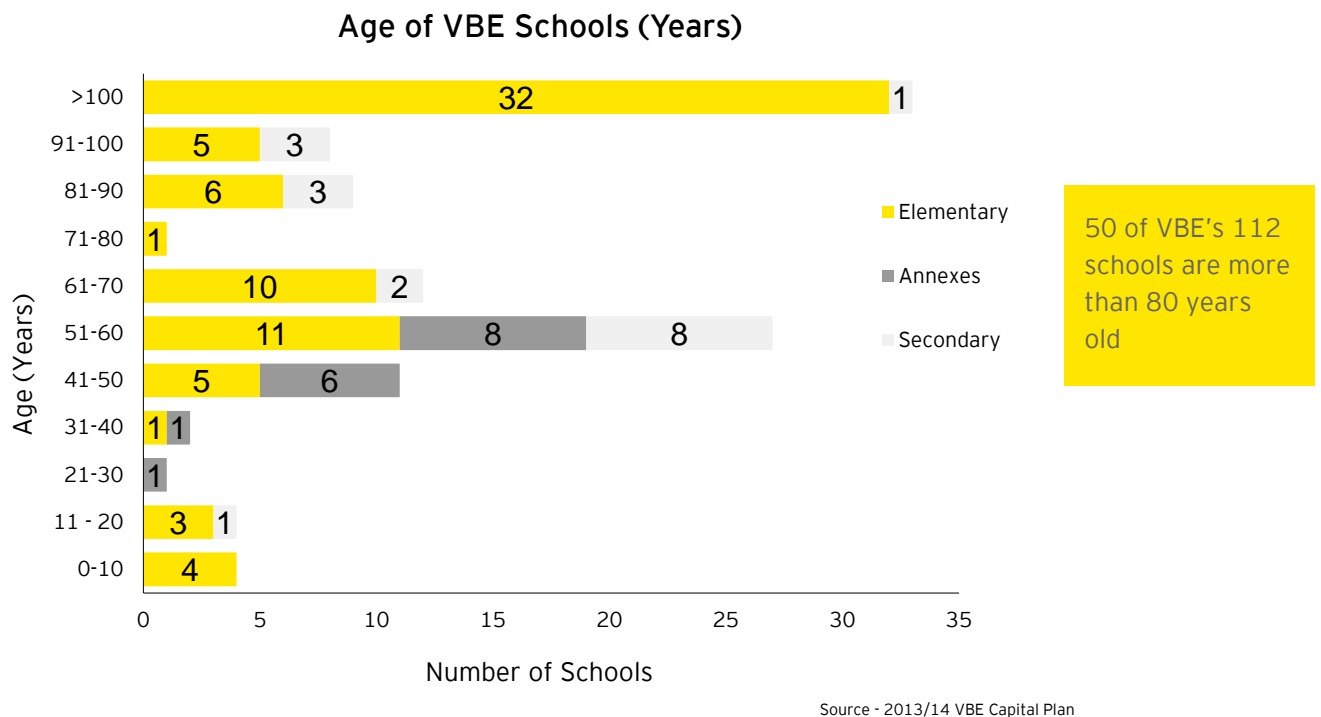
- ▶ VBE lacks tactical tools or a single source of core information or data that provides clear information of district-wide needs to inform VBE leadership and Board decision making.
- ▶ VBE lack a robust, maintenance plan to assist it in identifying and addressing its maintenance priorities in the most efficient and cost effective manner, contributing to the worsening of the condition of the District's facilities.

Finding 6.11: Capacity rationalization will reduce deferred maintenance costs

- ▶ If VBE does not alter its maintenance strategy through increasing the current level of funding it allocates to maintenance, or, reduces its current asset base, deferred maintenance is forecast to continue to rapidly escalate, and by SY2019/20 will exceed \$1B and by 2031 may exceed the estimated replacement value of its schools.
- ▶ A reduction in the District's existing asset base that needs to be maintained through capacity rationalization approach (discussed in 6.5.4) will significantly improve the District's deferred maintenance profile.

6.8.2 Age of District's schools correlated to large deferred maintenance costs

The average age of the District's 112 schools is approximately 73 years. 50 schools are more than 80 years old. VBE's elementary annexes are generally newer and were built primarily during the Baby Boom of the 1950s and 1960s, resulting in an average age of 48 years. The secondary schools have an average age of 68 years and the elementary schools average age is 77 years.



In 2009, VFA Canada Corp, a subsidiary of a large North American facility management consulting firm, VFA Inc., was commissioned by the Ministry to complete a series of facilities condition studies for each school in British Columbia. VFA conducted walkthroughs at the District's schools and identified building and site maintenance items and estimated the cost to replace each item at the end of the estimated useful life. The VFA approach assumes a worst case scenario where each item is required to be replaced at the end of its assessed useful life. This is a prudent and conservative approach, although the lifespan of capital assets can be extended well past assessed lifespans through a robust planned maintenance program. Nonetheless, the VFA condition studies aim to assist the school districts in their maintenance budgeting, capital asset replacement strategy and in their strategic decision making processes.

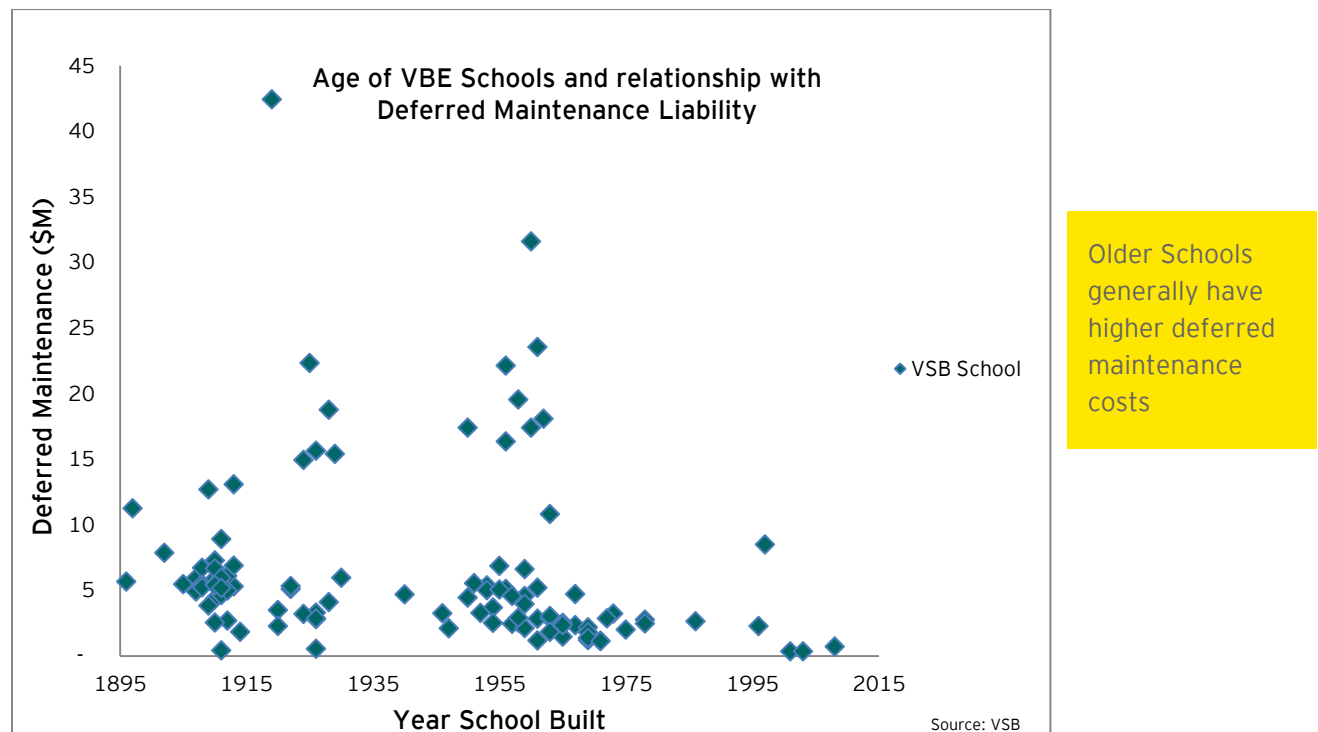
EY cited an extract from a province-wide 2013 conditions assessment report prepared by VFA, which shows the cost to address the high-priority maintenance requirements (e.g. Roofing, plumbing, fire protection, electrical, and mechanical) in the District's schools to be approximately \$666M over five years. VBE advises that this amount has risen to more than \$700M as there has been further deterioration since 2013. This equates to a district-wide average Facilities Condition Index rating of

approximately 0.48, signifying the current deferred maintenance is 48% of the estimated \$1.5B replacement cost. This is slightly higher than what EY understands to be VFA's assessed Provincial average of 0.43, and higher than three of the other four largest school districts in BC as detailed in the below table:

Table 6.12: Comparison of VBE's 2013 facilities condition to subset districts				
District	Deferred maintenance*	FCI*	SY2014/15 MEd enrolment	Deferred maintenance per student^
Vancouver	\$708.4M	0.48	49,492	\$14,313
Surrey	\$432.8M	0.31	65,041	\$6,654
Central Okanagan	\$142.7M	0.31	21,404	\$6,667
Coquitlam	\$322.9M	0.50	29,536	\$10,932
Burnaby	\$205.2M	0.32	25,940	\$7,911

*Deferred maintenance and FCI from 2013 VFA Review; ^ Deferred maintenance per student based on MEd 2014/15 enrolment used for utilization calculations

Using VFA's deferred maintenance data, EY undertook an analysis of the relationship between the age of schools and estimated deferred maintenance. The findings support VBE's assertion that the older schools generally have larger deferred maintenance costs. The below chart shows the relationship between age of the school and VFA assessment (described below) of current deferred maintenance:



In addition, VBE purports that these older schools typically have higher annual deferred maintenance costs and higher utilities costs because they tend to have lower energy efficiency due to large class room sizes. While this assertion appears to have merit, EY was not able to support this position because it was not provided with utilities and annual maintenance data on a school-by-school basis.

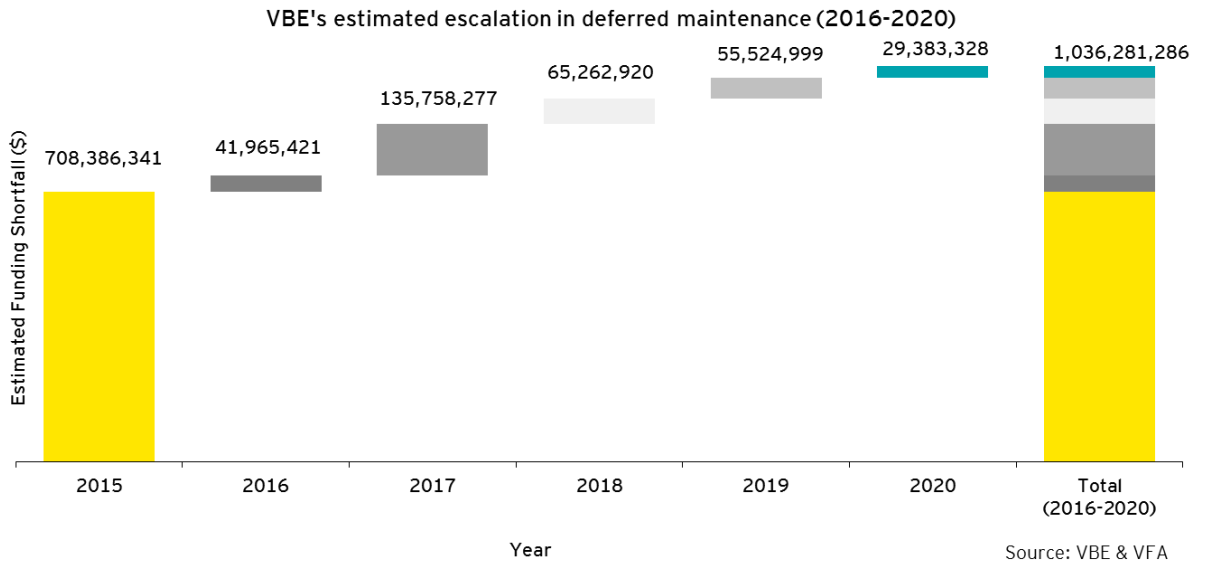
6.8.3 VBE forecasting rapid escalation in deferred maintenance costs

The current annual funding VBE receives for facility upgrades from AFG’s (approximately \$8.5M SY2014/15) is enough to address approximately 1.5% of VBE’s existing deferred maintenance. Alone, AFG funding is not enough to keep pace with the rate of further deterioration projected by VFA, nor is it intended to according to the Ministry. VBE is required to use funding from its operating grants to mitigate any shortfall in capital funding from AFG and direct funding based on condition assessments and prioritization of need.

EY reviewed VBE’s capital funding for facilities upgrades for the five years ended SY2014/15 (final year is based on final budget) and notes that VBE spent less than \$2M of operating funds on facility upgrades over that time. As a consequence, VBE, using VFA data, is projecting district-wide deferred maintenance costs and associated FCI will continue to worsen each year if:

- ▶ VBE continues to dedicate current level of funding for maintenance and facility upgrades in the same way and to the same level it has historically(SY2014/15 maintenance budget is approximately \$15.5M of total \$50M identified in section 6.4.2); and
- ▶ VBE’s existing asset base remains unchanged.

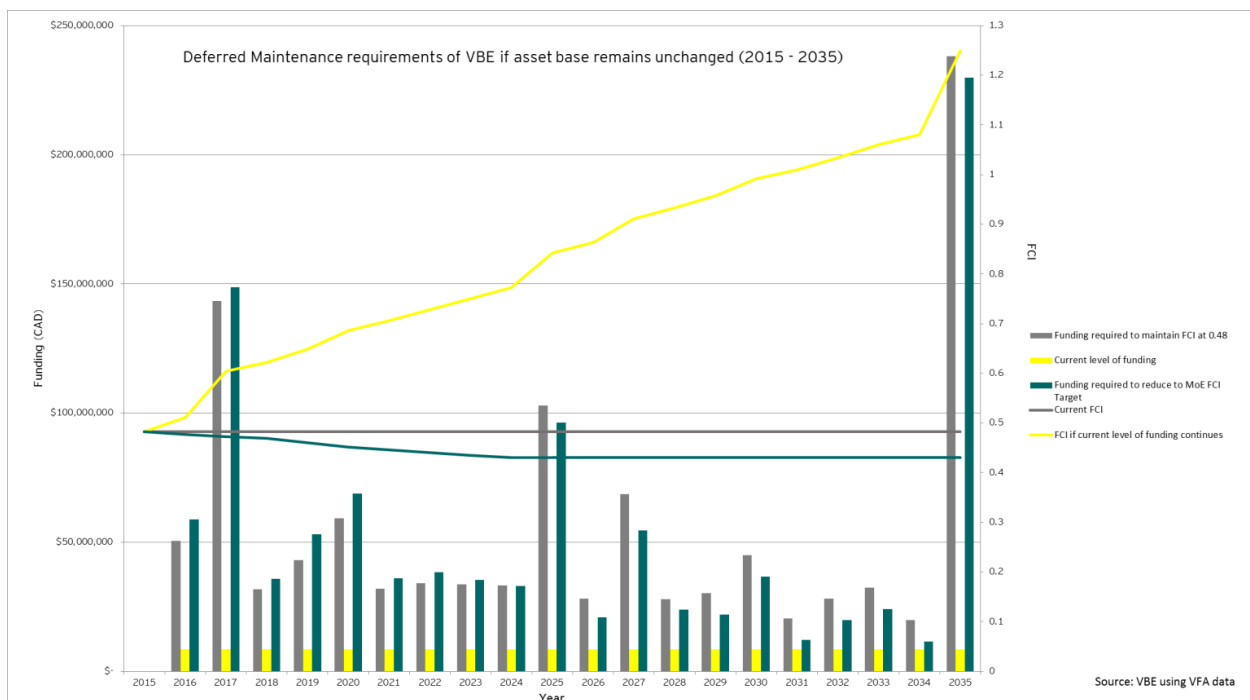
On these assumptions, VBE is projecting its deferred maintenance liability will increase by a further \$328M over the next five years, and exceed \$1B by SY2019/20, as detailed in the below chart.



Using these same assumptions with respect to funding and a stable asset base, VBE is projecting that by 2031 deferred maintenance will exceed the cost of replacing the District's facilities. The below chart, prepared from data provided by VBE from its VFA information, shows the level of funding and impact on the FCI under three scenarios, all of which assume the current asset base remains unchanged:

- ▶ Yellow - current level of funding VBE allocates to facility upgrades
- ▶ Grey - level of funding VBE is required to allocate to maintain the current district-wide FCI of 0.48
- ▶ Green - level of funding VBE is required to allocate to address immediate high priority deferred maintenance items and reduce the district-wide FCI to Provincial average of 0.43

This chart below is provided to show the scale of VBE's maintenance needs if it continues to maintain all 112 schools under the existing approach.



EY was not provided with the deferred maintenance costs forecast on a school-by-school basis and accordingly is not able to provide a graphical comparison of what the deferred maintenance profile would look like if VBE reduced its current number of schools by 19 Underutilized Schools identified in section 6.6.4.

6.8.4 Reducing annual maintenance costs and deferred maintenance costs

Reducing annual maintenance costs through improved planning processes

EY sought to quantify the possible range of annual maintenance cost savings that could be achieved through capacity rationalization.

To assist in this undertaking, EY requested VBE provide a breakdown of the actual annual maintenance cost for each school over the last five years so that it could utilize this data as part of the criteria for identifying candidate schools for capacity rationalization. VBE did not provide this data, advising that it was not easily obtainable and could not provide information that was useful for the purpose of identifying high cost schools. VBE advised that its immediate maintenance needs far exceeded its maintenance funding allocation and as a consequence, maintenance expenditure was currently being made on an adhoc basis according to the greatest risk to life safety. As a result, some schools would have little to no maintenance expenditure, whilst other schools would receive large amounts if a specific project was required that year.

The VBE's explanation suggests it does not currently possess tactical tools to support decisions for prioritizing maintenance expenditure and facility upgrades on a needs assessment basis. It also suggests that maintenance prioritization is focused on short term needs, rather than a whole-life cycle to manage least cost approach.

Recommendation 6.29

In conjunction with Recommendation 6.1 and 6.3, VBE develop a robust, maintenance plan based on least cost over life cycle, to assist it in identifying and addressing facility priorities.

Recommendation 6.30

VBE track annual maintenance on a school-by-school basis to support business case to support business cases for capacity rationalization.

Reducing annual maintenance costs through capacity rationalization

As noted in section 6.6.5, the Staffing Levels Report noted that the physical space per student in the District is more than 30 square feet above the Subset Districts average, which is directly increasing the incremental annual cost of maintenance per student (which is driven by physical space).

In addition, the quantity of maintenance supplies, which is also generally driven by physical space, is likely to be greater in the District than compared to the Subset Districts. EY was not able to verify this assertion with data or easily obtain comparable data from the other districts in the Province.

EY is comfortable asserting that if VBE is able to reduce its current asset base, the annual maintenance cost per student will be reduced and it will have more funds available to spend on a per facility basis, given AFG funding and Operational Grants are based on student enrolment.

Recommendation 6.31

VBE undertake a study on the relationship of physical space to the incremental cost of education to support business decisions to reduce surplus capacity.

Reducing annual maintenance costs through alternative delivery models

PwC's 2015 Review recommended VBE consider a mobile maintenance workforce to possibly reduce the District's maintenance staffing costs. A mobile maintenance workforce involves the deployment and management of maintenance crews using mobile technology through a constant stream of real-time updates. This approach would enable the maintenance team to respond to emerging work orders throughout the working day providing greater responsiveness and decreased travelling costs. PwC advises that over the past 12 months, school boards have started to implement this concept and this has resulted in significant time savings for travel, releasing capacity of the maintenance team to do more productive work. It is unclear whether labour and union agreements would prevent the implementation of this delivery model in the District in the medium to long term.

Recommendation 6.32

Facilities management is a non-core service and we agree with PwC's recommendation that VBE should evaluate the benefits of implementing a mobile maintenance workforce and extend this to assessing the benefits and opportunities for alternative service delivery models in the medium to long term.

Reducing deferred maintenance costs

EY also sought to quantify the possible range of foregone deferred maintenance costs that capacity rationalization could yield.

Using the approach identified in section 6.6.4, the District's deferred maintenance liability could be reduced in the range of approximately \$108M if capacity rationalization is applied to all 19 Underutilized Schools. The district-wide FCI would also be reduced by 0.01 to 0.47 as detailed below.

Table 6.13: Potential deferred maintenance costs avoided in underutilized schools

School Closure Metric	Elementary annexes	Elementary schools	Secondary schools	TOTAL
Number of facilities	7	10	2	19*
Total DM costs avoided	\$15.1M	\$53.6M	\$39.2M	\$107.9M
New district-wide FCI	0.61	0.41	0.52	0.47

* Approach assumes the maximum number of facilities subject to capacity rationalization to achieve MEd's utilization target of 95% the District's Schools. The availability of capacity rationalization at all 19 Underutilized Schools is unclear and accordingly this table should be read in conjunction with the assumptions stipulated in within this report.

^ Estimate is based on 2015 VFA Facility Condition Assessments. Actual FCI and deferred maintenance liability may differ from above.

Recommendation 6.33

Other school districts, including Central Okanagan and Surrey, have used school closure to address the growing gap between maintenance funding and maintenance needs.

VBE should factor the deferred maintenance obligations of its schools when identifying and deciding schools for closure and/or upgrade. VBE should develop a cost-benefit metric to assess the value of retaining or upgrading its schools. For example, it could use a deferred maintenance cost per student (as shown above) as part of the criteria for deciding whether the costs of providing education in a facility outweigh the benefits of that location. This analysis needs to be district-wide and not focused on a school-by-school basis. A district-wide approach may provide opportunities to reduce two or three adjacent schools with one new, Right-sized replacement (which will have no deferred maintenance).

VBE take a holistic approach in determining whether it is more cost effective to upgrade, replace or close a school.

Addressing deferred maintenance at the same time as supported seismic upgrades should be carefully considered given the likely cost savings that are achievable when delivering both capital projects concurrently. Further, there are likely to be financial and student benefits to limiting the disruption of the student population during these concurrent projects.

6.9 Non K-12 real estate

6.9.1 Key findings

Optimization of VBE's non K-12 surplus real estate can result in some minor cost savings and the potential for significant proceeds generation. This review identified two key findings and three VBE recommendations.

Finding 6.12: Significant progress achieved in reducing leases

- ▶ Since 2010, VBE has cancelled three leases, resulting in annual net cost savings of approximately \$665,000.
- ▶ VBE plans to cancel its two remaining leases, which will result in further annual net cost savings of approximately \$135,000.

Finding 6.13: Further opportunities may exist to reduce costs and drive revenues/generate proceeds from the District's non K-12 real estate

- ▶ VBE holds other non-core or non K-12 real estate that it may be able to optimize through disposal or repurposing.
- ▶ VBE was unable to provide information to quantify the potential opportunities.

6.9.2 Reduction in leases

In the 2010 Comptroller's Report and in PwC's subsequent 2012 review, it was noted that VBE should explore opportunities to reduce leases and utilize existing surplus capacity in the District's owned premises. Over the five years following the 2010 Comptroller's Report, VBE cancelled a number of leases, resulting in annual savings of approximately \$665,000. These lease terminations include:

- ▶ Closure of the Main Street AE Centre in June 2014 resulting in annual lease savings of approximately \$600,000;
- ▶ Closure of the Byng Satellite Program in August 2010 resulting in annual lease savings of approximately \$20,000; and
- ▶ Closure of the East-Side Program in July 2010, resulting in annual lease savings of approximately \$44,000.

As of May 2015, the District only leases two remaining properties, at an annual cost of approximately \$135,000 inclusive of property taxes and common area maintenance cost recoveries. These leases are for:

- ▶ The Vinery, which has annual lease obligations of approximately \$75,000, expiring on September 1, 2017; and
- ▶ The Downtown East Adult Education Centre, which has annual lease obligations of approximately \$60,000. It is currently on a month to month lease and can be terminated with one months' notice.

VBE advised that it intends to relocate the Vinery into Kitsilano Secondary School once its seismic upgrade has been completed. This is targeted for September 2017. The Downtown East Adult Education Centre lease has reached maturity and is currently on a month-to-month agreement. At a meeting of the Board in April 2015, the Board approved the closure of this facility. It is understood that the landlord has been notified and VBE will vacate the premises at the end of July 2015.

Recommendation 6.34

VBE relocate the Vinery and close the Downtown East Adult Education Centre as planned.

6.9.3 Optimizing non-core capital assets

In addition to its schools, as noted and summarized in section 6.4.1, VBE currently holds a large portfolio of administrative and non-core real estate that it may be able to optimize through a range of strategies including but not limited to disposal, repurposing for lease, and/or sale and leaseback.

For example, VBE currently leases the Kingsgate Mall to Beedie Development Group under a 99 year lease, generating approximately \$750,000 per annum. The Mall has a 2015 BC Assessment value of approximately \$56M. As noted above in section 6.6.7, BC Assessment property valuations only form an indicator of market value as they may not take into account all the characteristics (i.e. encumbrances like the 99 year lease) that a professional valuation would. The Kingsgate Mall is well situated in an inner city growth corridor and Beedie may be willing to acquire the land outright to

access the upside of land re-development. It is understood that Beedie and VBE have been in discussions about the options that are available; however, there has been no recent development.

In addition to the Mall, there may be similar opportunities for optimization of other non-core real estate. For example, the South Hill Adult Education Centre, which is used for the delivery of non K-12 education, has a BC Assessment value of approximately \$20M. There may be opportunities to relocate South Hill. Alternatively, there may be the opportunity to sell South Hill to a private education provider.

There may also be opportunities to optimize the administration office, workshop and nursery, especially in the case of the latter, if VBE adopts an alternative delivery model for grounds and maintenance service delivery. EY was not provided enough information to assess available options with respect to these properties.

Recommendation 6.35

VBE immediately engage a real estate professional to conduct a market study and prepare a valuation of its priority non-core lands, and K12 capacity rationalized lands (where anticipated), to better inform decisions on its revenue options, within a six month timeline.

Recommendation 6.36

VBE incorporate non-core/non-K12 real estate in its LRSFP.

6.10 Summary of potential financial benefits

The below table provides a summary of the possible financial benefits available to VBE if it were able to adopt the most aggressive capacity rationalization approach for all 19 Underutilized Schools.

The below table is to be read in conjunction with each section referenced in this report.

Table 6.14: Summary of potential financial benefits of capacity rationalization - note 1			
Cost savings opportunity	Potential annual cost opportunity	Potential one-time cost opportunity	Section
Increase student to staff ratios to align with peer group - note 2	\$21M - \$27M pa		6.6.6
Increase student to physical space ratios to align with peer group	Unable to quantify		6.6.6
Reduction in overhead costs from retirement of surplus schools - note 3	Approx. \$10M pa		6.6.6
Reduction in remaining leases - note 4	Approx. \$135K pa		6.9.2
Avoided deferred maintenance - note 5		Up to \$108M	6.8.4

Table 6.14: Summary of potential financial benefits of capacity rationalization – note 1

Avoided seismic upgrades – note 6		Up to \$153M	6.7.4
Proceeds generation opportunity	Potential annual proceeds opportunity	Potential one-time proceeds opportunity	
Sale of excess surplus capacity in Schools – note 7		Between \$200M to \$400M (BC Assessment values before selling costs and taxes on basis of selling all 19 underutilized schools)	6.6.7
Sale of surplus non-K12 real estate – note 8		Between \$50M to \$100M (BC Assessment values before selling costs and taxes and not accounting for lease restrictions)	6.9.3
Revenue from repurposing Schools and non-K12 real estate – note 9	Unable to quantify	Unable to quantify	6.9.3
Potential financial benefits from aggressive asset rationalization approach		Up to \$37M pa	In the range of \$250M to \$750M

Note

1. Approach assumes the maximum number of facilities subject to capacity rationalization to achieve MEd's utilization target of 95% the District's schools. The availability of capacity rationalization at all 19 Underutilized Schools is unclear and accordingly this table should be read in conjunction with the assumptions stipulated in within this report. For further details, see section 6.6.4 of this report.
2. Estimate of saving in salaries and benefits is based on increase in student to staff ratios to the same level as Subset Districts, identified in 2015 Staffing Levels Report commissioned by VBE. The low range estimate assumes a reduction of the maximum number of staff at the lowest remuneration scale for each class of staff. The high range estimate is based on the reduction of the maximum number of staff at the average remuneration scale for each class of staff (both provided by VBE). For further detail, see section 6.6.5.
3. This estimate uses the same methodology employed by VBE to quantify the potential savings from school closure in its 2007/08 Financial Sustainability Plan, and subsequently referenced in the 2010 Comptroller's Report. EY has increased salaries and benefits by inflation of 10% and utilities by inflation of 15% to arrive at a 2015 estimate. No adjustment to maintenance has been made as any reduction in maintenance costs from capacity rationalization will be spent to address other schools in the District. The estimate assumes the maximum reduction of Underutilized Schools. For further detail, see section 6.6.5.
4. The reduction achievable if VBE's two remaining leases at the Vinery and Downtown East Adult Education Centre are not renewed. For further detail, see section 6.9.2.
5. This estimate is based on deferred maintenance data provided by VBE from VFA's condition assessment software, the deferred maintenance liability assumes that all facilities (e.g. roof, plumbing, electrical, and mechanical) currently at the end of their assessed operating life are required to be replaced. Actual maintenance expenditure may be less than estimated by VFA, as facilities can operate beyond their assessed useful life. For further detail, see section 6.8.4.
6. Assumes that of the 19 Underutilized Schools, 16 are subject to upgrade or replacement under the MEd's SMP. The estimate of

Table 6.14: Summary of potential financial benefits of capacity rationalization – note 1

avoided SMP costs is based on VBE's internal 2007 estimates of construction costs at these 15 schools, with the exception of those schools that were designated for replacement. The cost of construction for schools designated for replacement is based on the 2015 replacement value estimates from VFA's condition assessments. For further detail, see sections 6.7.4 and 6.8.4.

7. EY cited 2009 BC Assessment valuations for the District's schools. If all 19 Underutilized Schools were sold, 2009 BC Assessment suggests approximately \$358M could be realized before selling costs and taxes. For further detail, see section 6.6.7.
8. As per note 6, EY cited 2009 BC Assessment property valuations which provide an indication of value but do not provide the basis to support a finding. It is unclear as to the availability to realize upon these assets. For further detail, see section 6.9.3.
9. From the data provided to it by VBE, EY was unable to obtain a finding with respect to the potential revenue that could be generated from the District's non-core real estate. For further detail, see sections 6.6.7 and 6.9.3.

7. Board governance

7. Board governance

7.1 Introduction

7.1.1 What is good governance in the public sector?

Public sector organizations have a responsibility to achieve results while also delivering value-for-money. Like any organization, the best way for a public sector organization to meet performance expectations is to actively monitor and review itself by practicing good governance. Governance refers to the structures, systems, and practices an organization has in place to:

- ▶ assign decision-making authorities and establish processes for how decisions are made
- ▶ oversee the delivery of objectives, implementation of policies and programs, and management of organizational risk
- ▶ report on performance in achieving intended results and use performance information to drive improvements and corrective action⁵

Governance in a public sector context is underscored by five key principles: accountability, leadership, integrity, stewardship, and transparency. Governance is also exercised at different levels within an organization, most commonly structured as a framework between Management and an oversight Board or Committee.⁶ Each level of a governance framework plays a complementary but distinct role, separated to promote objectivity in decision-making. Using risk management, as an example, the oversight body plays a valuable function by setting an organizational risk appetite and providing oversight of key strategic risks, leaving the day-to-day monitoring, mitigation, and responsibility for the upward escalation of risks to management.⁷

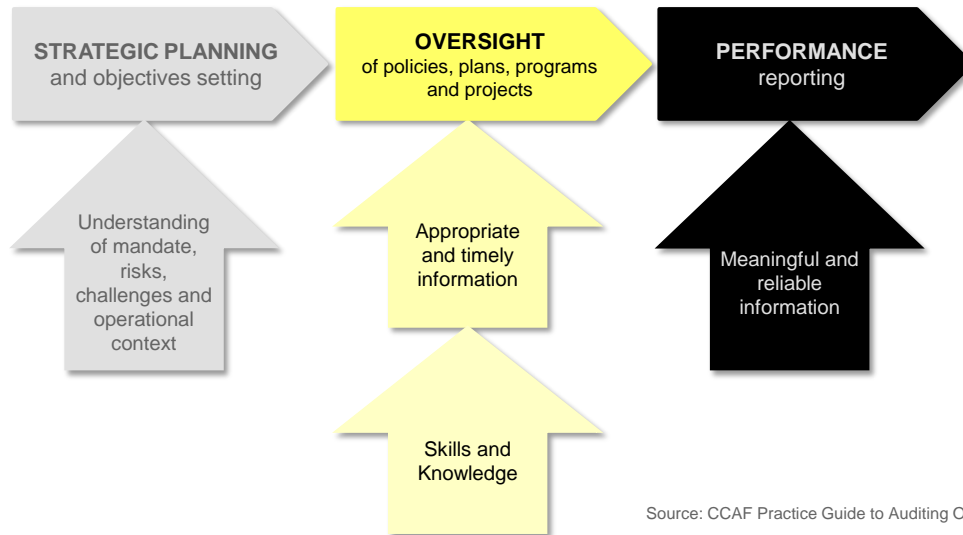
A good governance framework requires not only a logical design to effectively exercise oversight across an organization, but it also requires competent and adequate resources to implement the associated governance practices in a consistent manner. Similar to how a strong school curriculum needs a superiorly-skilled teacher to realize maximum student potential; a well-designed framework needs to be operated as intended for it to be effective. Both Provincially and locally, the Canadian public sector has established guidance on the importance of governance resources that is in line with leading governance practices, including the Government of British Columbia's *Best Practice Guidelines on Governance and Disclosure*, the BC School Trustees Association's *Successful Governance: A Resource Manual for Boards of Education*, and the Canadian School Boards Association's repository on School Governance based on information and programs from districts across Canada in the areas of good governance, effective boards, and the roles of Trustees. The key message and ultimately, the key responsibilities of a public sector governance body such as a Board of Trustees include the ability to:

⁵ Canadian Comprehensive Auditing Foundation. (2014) *Practice Guide to Auditing Oversight*.

⁶ *ibid.*

⁷ Bader, B.S. (2008) "Distinguishing Governance from Management." *Great Boards* (Vol. VIII, No. 3). Retrieved from: <http://www.greatboards.org/newsletter/2008/>

School Governance based on information and programs from districts across Canada in the areas of good governance, effective boards, and the roles of Trustees.



Public Sector organizations such as VSB face unique challenges given that their oversight bodies are elected and may not have financial skills or previous governance experience. This, in addition to the fact that the Board has both advocacy and stewardship roles and must comply with the School Act increases the importance of clear mandates, roles and responsibilities, and orientation and training.

Figure 7-1 - Elements of an effective governance framework

The key message and ultimately, the key responsibilities of a public sector governance body such as a Board of Trustees include the ability to:

- ▶ Add value and provide support for management in establishing strategy and reviewing risks and opportunities
- ▶ Effectively monitor the performance of management and the organization
- ▶ Account for the performance of the organization

Examples of commonly required skills or expertise to practice oversight include executive leadership experience, operational and corporate management, financial literacy and acumen, and risk oversight and management experience.

7.1.2 Governance in the education sector and *The School Act*

Ensuring that Board members have the required skills and experience becomes more difficult when oversight body members are elected representatives. Such elected members may not have relevant **training or experience in governance, and will need to fulfill their stewardship and legislative responsibilities** while balancing the interests of stakeholders. In addition to the responsibilities common to all public sector boards, a school board's effectiveness is measured by its ability to:

- ▶ Promote and sustain student achievement standards

- ▶ Accomplish goals designed to bring positive results to communities
- ▶ Demonstrate accountability⁸

Specific to school districts in the province of BC, these governance responsibilities in a public sector environment must also be met within the context of the Vancouver Board of Education's legislative responsibilities under *The School Act*.

Under the Act, the responsibility for the delivery and management of education belongs to many: the Province, the schools and teachers, stakeholder groups, and the Board and its administration. Board Trustees are elected by the eligible general public for a specified term; in VBE's case, the term is four years. The Board is ultimately responsible for its own effectiveness, assessed based on the criteria outlined above. The Board achieves this objective from a practical perspective through the management of the school district, including the operations of schools, and for the custody, maintenance, and safekeeping of all property owned or leased by VBE. VBE's Policy Manual and district by-laws support the Board in meeting their legislative responsibilities.

Areas subject to Board decision-making under <i>The School Act</i>			
▶ Management of schools and property	▶ Specialty academics	▶ Fees and deposits	▶ Trades programs
▶ Financial assistance	▶ Use of Board property	▶ Student records management	▶ Musical instruments

The above examples are standard areas of responsibility that every Board must manage and oversee to make the most effective use of District's resources considering its unique operating environment, demographic distribution, and interests of the community.

In addition to these responsibilities, the Board must also make more strategic decisions delegated by the Act, such as the most efficient management of property and capital resources, the running of specialty learning programs, fee and collection structures, policy and strategies for cases of financial hardship and assistance, information management architecture, and policies for retention and storage. Some of these issues seem operational in nature, but when the impact of each issue is measured either in isolation or collectively, they can have an impact on the Board's ability to manage a balanced and long-term sustainable district. While Trustees may see advocacy as a component of their roles and responsibilities, from a governance perspective, advocacy can only take place once their fiduciary and *School Act* responsibilities have been discharged.

⁸ Canadian Schools Boards Association. "Good Governance: A Guide for Trustees, School Boards, Directors of Education and Communities." *School Governance: Successful Programs and Best Practices*. Retrieved from 21 April 2014: <http://cdnsba.org/resources/school-governance>

7.2 Scope and approach

7.2.1 Work stream scope and objectives

The governance work stream scope was focussed on the effectiveness of Board governance overall, as well as the Board's oversight effectiveness over fiscal management. Within this scope, the work stream focused on the following two objectives:

- ▶ **Objective I:** Review special advisor, audit and management consulting reports for the district provided to the Board or the minister in the past five years and the actions taken in response to recommendations
- ▶ **Objective II:** Review board governance practices and the Board's capacity in respect of financial matters and effective fiscal management

7.2.2 Out of scope

The following areas were deemed out of scope from a review perspective. However, in areas where our review produced findings or recommendations in these areas, we have summarized the key points in section 7.3 Key findings, observations and recommendations.

- ▶ **Oversight by the Ministry of Education:** The governance work stream did not define criteria or attempt to review the effectiveness of governance oversight practiced by the Ministry of Education over VBE. Similarly, the review did not assess the adequacy of the Ministry of Education's governance framework over BC school districts. During the course of our review, we noted findings and recommendations that would benefit from the involvement or direction of the Ministry of Education. These are noted within our section on findings, observations, and recommendations.
- ▶ **Oversight between VBE and school management:** The governance work stream focused on the effectiveness of governance and fiscal management at VBE overall; the review did not include detailed procedures to assess the adequacy of governance and oversight exercised by VBE management (including the superintendent) over individual schools, their principals, and their respective resources.
- ▶ **Oversight of other key Standing Committees II, III, IV:** While the governance work stream reviewed the effectiveness of the governance structure between the Board and its Standing Committees to ensure the design of the governance structure was appropriate, the review did not focus on the quality of oversight and decision-making with regard to matters independent of fiscal management, such as matters solely concerned with facilities planning, education and student services, and people and staffing issues. Subsequently, the quality of oversight exercised by Standing Committees II, III and IV was not examined in detail.

7.2.3 Methodology and approach



The team conducted the work stream review in three phases: planning, analysis, and reporting.

Planning: During the planning phase, the team conducted a review of external and internal documentation to appropriately align the assessment criteria with the organization. To provide a sound base for the assessment of governance, we looked to leading guidance on public sector governance and oversight, and developed the following assessment criteria for the work stream:

Assessment criteria	
Area of focus	Description of criteria
Oversight and responsibilities	The extent to which the Board of Trustees has clearly defined and adequate oversight roles and responsibilities, a clear mandate to carry out specific oversight functions; and the extent to which it operates accordingly.
Independence	The extent to which the Board of Trustees has clearly established independence requirements for its members to manage real and perceived conflicts of interest; and the extent to which it operates accordingly.
Skills and knowledge	The extent to which the Board of Trustees has defined the requisite skills, knowledge, and experience the body must collectively possess to fulfill their oversight responsibilities; and the extent to which it operates accordingly.
Sufficient and appropriate information	The extent to which the Board of Trustees has defined its information needs and communicated these needs to management; and the extent to which it operates accordingly.
Performance monitoring	The extent to which the Board of Trustees has in place adequate systems and practices to monitor the organization's performance; and the extent to which it operates accordingly.

Assessment criteria	
Area of focus	Description of criteria
Risk management	The extent to which the Board of Trustees has approved a Risk Management Policy and has defined and allocated roles and responsibilities in this area; and the extent to which it operates accordingly.
Compliance	The extent to which the Board of Trustees has adequate controls to ensure awareness of the organization's state of compliance and need for corrective action in place; and the extent to which it operates accordingly.
Corrective actions	The extent to which the Board of Trustees has in place adequate controls to ensure corrective action is taken in a timely manner; and the extent to which it operates accordingly.
External reporting	The extent to which the Board of Trustees has identified the accountability reports it needs to receive, review, and approve; and the extent to which it operates accordingly.
Performance assessment	The extent to which there is an adequate process in place to assess the Board of Trustees' performance in fulfilling its oversight responsibilities.

Analysis: During the analysis phase, procedures were conducted to assess the current state of governance against the criteria. The materials that informed findings and recommendations include:

- ▶ **In-depth documentation review:** Documents that form VBE's governance framework and activities, including Board and Standing Committee terms of reference, stated objectives and committee proceedings for a one-year period; VBE's policy framework and other legislative responsibilities; and, previous internal and external reviews of VBE's governance, programs, or operations. Please see Appendix A for a complete list of documentation reviewed.
- ▶ **Interviews with key stakeholders:** Interviews were undertaken with key members of VBE's management team and a selection of Trustees, including the current membership of the Finance and Legal Standing Committee and past chair of the Board. Please see Appendix B for a complete list of interviews.
- ▶ **Information synthesis:** Information on VBE gathered through both the documentation review and interviews was synthesized to determine common themes and key findings.

- ▶ **Leading practice and peer analysis:** Information and documentation on the governance structure of comparable districts and regions, including the Ministry of Education in Ontario and the Surrey, Coquitlam, Richmond, and Chilliwack School Districts. Please refer to Appendix F.

Reporting: During the reporting phase, findings and observations were presented both to the Ministry of Education and VBE, and were organized along high-level themes. The findings and recommendations were vetted with representatives of the MEd and VBE management in a workshop format, and ultimately formed the findings and recommendations outlined in this report.

7.3 Summary findings and recommendations by ministry objective

The following table details the most pertinent findings and recommendations that respond to the Ministerial Objectives:

Objective:	Review special advisor, audit and management consulting reports for the district provided to the Board or the Minister in the past five years and the actions taken in response to the recommendations	Section
Current state findings:	<ul style="list-style-type: none"> ▶ While significant progress has been made in a number of areas, there was minimal action or evidence of progress in three key governance areas, specifically establishing an Audit Committee. Implementing Board performance and self-assessment processes, and formalizing risk management processes for the district. ▶ Specific to the 2010 Review conducted by the Comptroller General, of the 22 recommendations that were deemed in scope with regard to Board governance: two were deemed to be fully implemented, 16 were in progress, and four were deemed to have had minimal progress made. 	7.4.1
Top 4 recommendations:	<ul style="list-style-type: none"> ▶ Establish an Audit Committee ▶ Implement Board performance and self-assessment processes ▶ Formalizing risk management processes for the district ▶ Board to continue to make a sustained effort to fully implement recommendations that are in progress and partially implemented 	7.1

Objective:	Review Board governance practices and the Board's capacity in respect of financial matters and effective fiscal management	Section
Current state findings:	<ul style="list-style-type: none"> ▶ Roles and responsibilities are documented and generally understood, and decision-making is based on sufficient information ▶ Execution of roles and responsibilities inefficient and unclear ▶ Committees operate on a consensus basis with little to distinguish between voting members, the Board and non-voting stakeholders ▶ The Board has not established an Audit Committee to provide objective financial oversight ▶ There is an opportunity to update their Strategic Plan in the current fiscal year and integrate this plan with operational plans and performance measurement processes across the district 	7.4.2
Top 4 recommendations:	<ul style="list-style-type: none"> ▶ Board further formalize Board and Standing Committee meeting protocols to clarify meeting outcomes and staff actions / follow-up ▶ Board implement an Audit Committee as a sub-committee of the Board with external members ▶ Board update its Strategic Plan and integrate it with operational plans, a performance measurement framework, a Board self-assessment framework, and a formal risk management process ▶ Board implement a formal risk management process or framework 	7.2 7.3 7.4 7.5

The rest of this section outlines the full details on the analysis supporting the findings and recommendations.

7.4 Key findings and recommendations

7.4.1 Objective I: VBE management action on previous recommendations

Finding 7.1: Minimal action or evidence of progress in three key governance areas

While significant progress has been made in a number of areas, as outlined below, there was minimal action or evidence of progress in three key governance areas, specifically:

- ▶ **Audit Committee:** The Board has not established an Audit Committee to provide objective oversight of financial reporting and compliance
- ▶ **Board Performance and Self-Assessment:** The Board has not implemented a process to assess and identify the collective competency of the Trustees to ensure there are no competency gaps in the current complement, and does not perform any self-assessment activities
- ▶ **Risk Management:** The Board has not implemented a formal Enterprise Risk Management process or framework at VBE, and risk management continues to be an informal process

Specific to the 2010 Review conducted by the Comptroller General, of the 22 recommendations that were deemed in scope with regard to Board governance, two were deemed to be fully implemented, 16 were in progress, and four were deemed to have had minimal progress made.

An analysis of previous audit and review reports that contained findings relevant to the governance and financial management of VBE were reviewed, specifically the 2010 VBE Review conducted by the Office of the Comptroller General of BC and the 2012/2015 Resource Allocation Review by external advisor PwC. Based on this analysis, we identified findings where:

- ▶ Minimal or no progress had been made to address the recommendation, and no formal Board response had been issued
- ▶ Some progress has been made to address the recommendation, or were currently in-progress
- ▶ An initiative had been fully implemented with the objective of addressing the recommendation

Minimal progress

Given our findings and recommendations are aligned with previous recommendations, and in the interest of brevity, we have provided an analysis in the sections referenced below:

Audit committee

The Comptroller General highlighted in the 2010 VBE Review that the Board of Trustees should establish an Audit Committee to provide oversight and make recommendations in respect of the Board's fiduciary responsibilities to the organization (Rec. 6); and restrict Audit Committee membership to no more than four Trustees, zero stakeholder representation, and supplemented with 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 (Rec. 7).

Since the 2010 report, while the Finance and Legal Committee has adopted select responsibilities, including oversight of quarterly financial information and the preparation of financial statements, no action has been taken by the Board of Trustees to address these recommendations. For a thorough analysis of findings and recommendations, please refer to section 7.4.2, finding 3.

Board performance and self-assessment

The Comptroller General highlighted in the 2010 VBE Review that the Board of Trustees should develop a competency based approach to orientation and training including identifying the competencies required, identifying competency gaps based on Trustee membership, and filling those gaps through training and outside expertise (Rec. 14); and implement a self-assessment framework to annually measure its effectiveness, considering the opportunity to share the results of the assessment publicly (Rec. 15).

Since the 2010 report, no action has been taken by the Board of Trustees to address these recommendations. For a thorough analysis of findings and recommendations, please refer to section 7.4.2, finding 4.

Risk management

The external reviewers, PwC, highlighted in the 2012 Resource Allocation Review and again in the 2015 Update Review that the Board and VBE management should consider implementing an Enterprise Risk Management model to provide the framework to create a controlled risk environment where employees are able to work in optimal learning conditions and minimal risk exposure (Rec. 7.11).

Since the 2010 report, no action has been taken by the Board of Trustees to address these recommendations. For a thorough analysis of findings and recommendations, please refer to section 7.4.2, finding 5.

Improvements made

Strategic direction

The Comptroller General highlighted in the 2010 VBE Review that VBE management should 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, be kept current through periodic reviews and refreshes (Rec. 20), and support the strategic plan with a long-range financial management plan (Rec. 21) and a comprehensive district-wide facilities plan (Rec. 39).

Since the 2010 report, VBE management team responded by developing a five-year Strategic Plan for 2011/12-2015/16, but progress against other components of the recommendation was limited. External reviewers, PwC, highlighted an opportunity for improvement in integrating the Strategic Plan with operating plans in the 2015 Resource Allocation Review Refresh (Rec. 7.1). For a thorough analysis of findings and recommendations, please refer to section 7.4.2, finding 4.

Board Priorities

The Comptroller General highlighted in the 2010 VBE review that the Board should focus on fulfilling both its stewardship and advocacy responsibilities in a balanced manner (Rec. 8) and that the Board should use outside expertise to ensure the governance structure enables a balanced approach to the Board's responsibilities.

In reviewing VBE's current governance model, the structure and delineation of authority between the Board and the Advocacy Committee is clear - the Advocacy Committee is an advisory body to Standing Committee I, which itself is limited to making recommendations to the Board. However, there is an opportunity to further address the Comptroller General's recommendation by employing outside expertise and advice to ensure the Board continues to appropriately balance its priorities between stewardship and advocacy. Recommendation 7.3.A addresses the most significant opportunity for improvement in this area with the recommendation for an Audit Committee with external members, however the Board should avail itself of external advice in other areas as required.

Budget oversight

The Comptroller General highlighted in the 2010 VBE Review that VBE management should prepare projections and forecasts on an established schedule and retain the supporting documentation (Rec. 26); and, 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 risks (Rec. 27).

Since the 2010 report, VBE management has implemented two processes to address these recommendations:

VBE's Finance Department has implemented a *Budget Shepherd* process, where Finance resources are assigned to each department to facilitate a monthly analysis of their respective budget, actuals, variances, and projections for the fiscal year. Departmental leaders are required to explain significant variances and potential risks.

The information analyzed as part of the monthly *Budget Shepherd* process is used to inform the quarterly financial reporting process, where the Finance and Legal Standing Committee and, subsequently, the Board provide oversight of the quarterly financial information on VBE's budget, actuals, variances, and projections for the whole organization, as presented by VBE's Finance resources. There is evidence that this agenda item is discussed on a regular quarterly basis, and interviews indicate this has improved communication about financial management between VBE management and the Board.

As part of our analysis under Objective I, we have highlighted the most significant findings in the body of this report as they remain priorities for the Board. Please refer to Appendix F for a comprehensive analysis of all previous recommendations, including those assessed as partially complete or in progress.

Recommendation 7.1.A

Specific to Audit Committee, Board Competency and Self-Assessment, and Risk Management: These recommendations, as appropriate, have been rolled into EY's recommendations 3, 4, and 5 respectively.

Additionally, Board continue to action and implement processes and controls in response to findings and recommendations made in 2010 and 2012, as outlined in Appendix F. For recommendations where the status is in progress, the Board should create an action plan to prioritize these based on urgency and value to the organization.

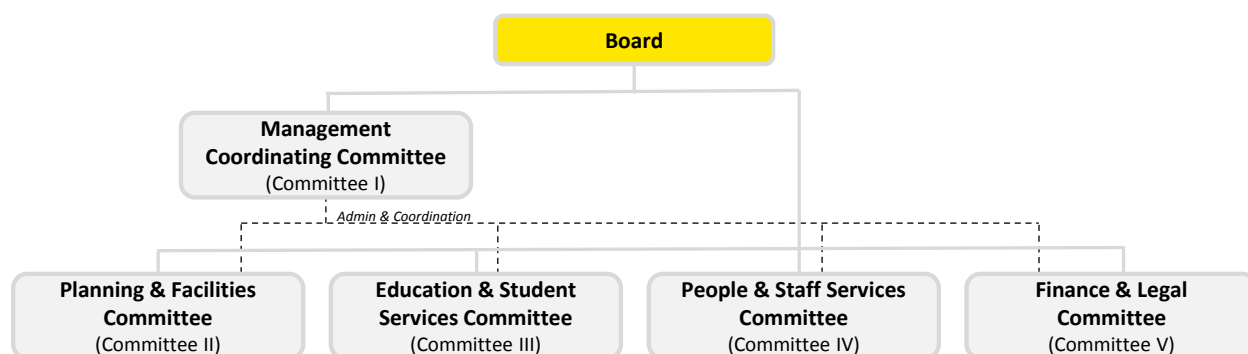
Recommendation 7.1.B

During the course of our analysis of previous recommendations, we identified an opportunity for the Ministry of Education to contribute to the continuous improvement of VBE by revisiting previous findings and recommendations delivered in the 2010 Vancouver School Board Review by the Office of the Comptroller General of BC, which were directed to the Ministry to see if any recommendations continue to be relevant.

For those recommendations that continue to be relevant, the Ministry should work with VBE to address the recommendation using a co-governance approach.

7.4.2 Objective II: Effectiveness of governance

VBE's core governance structure is composed of nine Trustees that make up the Board of Education. This Board is supported by five Standing Committees, as per the diagram below.



Membership of the Standing Committees consists of four to nine Trustees, a Committee Chair, plus a non-voting member of VBE management. The Board Chair is an *ex-officio* voting member of all Standing Committees. In addition, various stakeholder and public groups have representation at the Standing Committees, and non-member Trustees are also permitted to observe. The Management Coordinating Committee (Committee I) is composed of the Chairs of Committees II-V plus the Board Chair, and provides functional coordination of the Committee work. These Standing Committees make recommendations to the Board as the ultimate decision-making body.

These Standing Committees are additionally supported by Advisory Committees, which provide insight primarily to the educational programs of the Board by way of research or stakeholder perspective gathering. Ultimate decision-making authority continues to reside with the Board⁹, and Advisory Committees do not play a formal governance and oversight role within VBE's governance structure.

Finding 7.2: Governance roles and responsibilities

Board and Standing Committee roles and responsibilities are clearly defined. Improvements could be made in the management and conduct of the Standing Committee meetings.

Overall, roles and responsibilities of the Board and its Standing Committees are defined, documented, and understood, and meeting protocols for voting, recommendation and decision-making are defined in VBE's Policy Manual. Based on analysis and interview feedback, two opportunities for improvement in the definition of governance roles and responsibilities were identified.

1. Define the role of stakeholder contribution

Consultation and contribution by stakeholders is seen as a key principle of the Board's operating culture; however, there is opportunity for improvement in the definition of how stakeholder input is to be received and considered as part of the decision-making process. Standing Committee proceedings are less formal than the Board meetings, and the impact of stakeholder input is particularly unclear to management for effective implementation when Standing Committee recommendations are made by consensus discussion.

2. Define the process for assigning work to VBE management

As part of Standing Committee and Board regular discussions, Trustees and stakeholder representatives may request that more information be provided prior to making a formal recommendation or decision. The responsibility for the identification and provision of this additional information falls to management; both Trustees and management indicated that it is not always clear whether a request for more information is a formal task assigned by the Committee or the Board or an opinion expressed by an individual. This creates additional workload for VBE management team that is not identified in strategic and operational plans. As defined in *The School Act*, the Board may "delegate specific and general administrative and management duties to one or more of its employees"¹⁰, but by the same token "committees or trustees or individual trustees may not exercise the rights, duties and powers of the Board."¹¹

⁹ Vancouver School Board. (1982). *Policy Manual (BCF: Advisory Committees to the Board)*.

¹⁰ Government of British Columbia. (2015). "Board is a corporation". *The School Act* (65, [2.c]).

¹¹ Government of British Columbia. (2015). "Board is a corporation". *The School Act* (65, [3]).

Recommendation 7.2

Board of Trustees take further steps to formalize the operations (e.g. using Robert's Rules) and structure of committee meetings with defined seating plans and speaking protocols to clearly differentiate between members of the committee, observer Board of Trustee members, and stakeholders to ensure that everyone gets an opportunity to participate in a manner appropriate to their role. This will have the added benefit of clarifying meeting outcomes, streamlining the recommendation process, and facilitating staff action items/follow up.

Note: this recommendation incorporates previous recommendations from the 2010 Office of the Comptroller Review of VBE.

Finding 7.3: Audit committee

There is no formal audit committee with external members established. This role is currently fulfilled by Committee V. However with the absence of external financial advisors, the financial capabilities of the committee can vary depending on its membership.

In keeping with their fiduciary responsibility of financial stewardship of an organization with a \$500M budget, the Board's legislative responsibilities under *The School Act* include making decisions on educational and budget matters and administering public funds. Both Committee V and the Board fulfil some responsibilities typically expected of an Audit Committee, such as oversight of quarterly financial information and the financial statement preparation process. However there is an opportunity to improve the effectiveness of the Board's oversight of financial management through the creation of a formal Audit Committee.

Leading practices indicate oversight bodies, specifically Audit Committees, are in the best position to maintain independence and objectivity when: the leadership does not hold significant day-to-day management responsibility; the composition includes both internal and externally appointed resources; and membership and leadership is revolving. By nature, the election of Trustees that form the Board mean that Standing Committee membership is also changing. However, there is opportunity to further align VBE with leading practices found in other education districts, both within BC and elsewhere in Canada. While this recommendation focuses on the financial expertise that would be provided to the Board by external members of an Audit Committee, the Board would benefit from the ability to draw upon external technical resources on an ad hoc basis to provide objective and independent insight into non-financial matters as well.

Spotlight on - Richmond School Board Audit Committee: The Richmond School Board's (District #38) Standing Committee structure includes an Audit Committee composed of a Chair, Vice-Chair and one member selected from the Board of Trustees. The Audit Committee is responsible for assisting the Board with its responsibilities related to financial reporting, internal control, information systems and risk management, external audit, internal audit, and the budgeting process. All Audit Committee meetings are held in-camera, and frequency is determined as needed. The Standing Committee structure also includes a Personnel and Finance Committee, a committee with a mandate comparable

to a hybrid of VBE's People and Staff Services and Financial and Legal Committees (Standing Committees IV and V, respectively).¹² There is defined delineation between the role of Richmond's People and Finance Committee, which is responsible for recommendations to the Board and stakeholder consultation with regard to execution of the annual budget, and the Audit Committee, which provides regular oversight over financial planning, financial reporting and the financial statement audit. Ultimately, the Audit Committee's objective is to ensure an adequate system of internal control exists at the organization.

Spotlight on - Ontario: In 2009, the Ministry of Education in Ontario introduced legislation requiring all school boards to create an Audit Committee and internal audit function to facilitate financial transparency and accountability and assurance over the governance, risk management and controls within the district. The internal audit function is to focus on the efficiency and effectiveness of operations (including the safeguarding of assets), the reliability of financial and management reporting, and compliance with laws, regulations, policies and procedures. The audit committees are comprised of Trustees and non-Trustees to oversee and objectively assess the performance of the organization, management, and its auditors.¹³

Recommendation 7.3.A

Board of Trustees establish an Audit Committee with membership composed of Trustees and external financial professionals to ensure the Audit Committee has sufficient knowledge, skills, experience, and objectivity to provide oversight and make recommendations with respect to the Board's fiduciary responsibilities. A quarterly meeting schedule would minimize the additional time commitment; there is also an opportunity to mimic the structure of the Richmond School Board and its Standing Committee by combining VBE's Committees IV and V to create a People and Finance Committee with responsibilities for financial decision-making that is distinctly independent from the oversight of the Audit Committee.

Additionally, external member terms be staggered with those of Trustees to ensure continuity and support long-term decision-making. The value of the opportunity to serve on a not-for-profit Board with community impact provides prestige and incentive for qualified professionals to volunteer for the external positions, further reducing the cost to implement an Audit Committee.

Note: this recommendation incorporates previous recommendations from the 2010 Office of the Comptroller Review of VBE.

¹² Richmond School District No.38. (2013) "Audit Committee". About Us: District Committees. Retrieved on 13 May 2015 from: <http://www.sd38.bc.ca/district/committees/Audit>

¹³ Government of Ontario. (2009). "Audit Committee". *Education Act* (253 [1.1]).

Recommendation 7.3.B

There is an opportunity for the MEd to ensure that all districts in the province consistently use an audit committee to provide objective oversight of its fiduciary responsibilities. As mentioned the skills and fields of qualification of elected Trustees can be extremely variable within a Board and amongst all Boards of Education found in BC. We recommend that the MEd create and implement a legislative requirement for the establishment and regular functioning of an independent audit committee function at the district level.

The MEd can draw upon other provincial examples, one of the most mature being Ontario - the Ministry of Education of Ontario introduced legislation requiring all Boards to create both an audit committee and internal audit function to further the Board's financial transparency and accountability and objective assurance over the status of the organization.

Finding 7.4: Strategic planning, performance measurement, and monitoring

The current strategic plan is about to expire and a new plan will be developed in SY15/16. There has not been a performance measurement system in place within VBE in the past, and the Board of Trustees has not performed a self-assessment of its performance in meeting the strategic plan. The development of a new plan provides an opportunity to improve in these areas.

The ability of an organization to determine whether it is successful in meeting its objectives is part of a larger holistic strategic planning and performance measurement process. Organizations need to define what success is in the form of strategic objectives, and how they will determine if they reach it, through ways of defining and measuring their performance.

Strategic planning and performance measurement

In response to the OCG's report in 2010 identifying VBE's need to plan its operations and objectives more strategically, the senior management at the time developed a Five-Year Strategic Plan for SY2011/12 to SY2015/16. The process undertaken to develop the Strategic Plan was seen as useful, and helped to align management and the Board. However, the ongoing and practical use of the plan is limited: the Strategic Plan has not been updated since its initial development in 2010, indicating that it's alignment with VBE's current objectives is out-of-date; and, there are limited performance measurement processes in place to assess VBE's performance against the plan.

While VBE has undertaken periodic performance reviews of specific components of their operations, such as the Inner City Schools Program Review (2009, 2013), the Resource Allocation Review (2012, 2015) and the Sector Review (2012), performance review activities are ad hoc and actions taken in response to review activities are inconsistent. VBE has not adopted an integrated approach to performance measurement across its programs and operations, and the definition of either Key Performance Indicators or success overall is limited. Interviews indicate that there is a desire for a more comprehensive approach to strategic planning and performance measurement at both the Board and management levels.

Board of Trustees' performance self-assessment

Ensuring the Board of Trustees collectively process the skills and competencies to adequately fulfil their responsibilities is a key component of good governance and effective oversight. This is particularly important in an environment where Trustees are elected representatives, often elected based on their priorities and ability to represent the public, and less on their professional and business experience.

At the onset of each Board term, VBE management and Trustees participate in an orientation program that provides practical orientation and guidance on VBE's governance structure and the roles and responsibilities of the Board and its Standing Committees. Trustees are also provided with the opportunity to attend the BC School Trustees Association (BCSTA) orientation programs. However, the Board of Trustees has not adopted a regular process by which it assesses its collective skills and knowledge to ensure the body as a whole continues to be competent in its responsibilities. Additionally, no mechanisms are in place to assess the overall performance of the Board in meeting its objectives.

VBE Board has the opportunity to leverage local tailored guidance from the BCSTA, which has developed comprehensive guidance to assist school Boards in achieving their objectives through performance management and review processes. Some key examples include:

- ▶ **Performance planning and review for school superintendents:** A pre-defined process to help the Board and superintendent identify mutual goals, enhance communication, and build positive relationships. The three-step process is intended to be led by an experienced facilitator with the ultimate objective of answering, "How are we doing?"
- ▶ **Board self-review and development:** The BCSTA provides guidance for the method by which a Board can assess its own performance. It also highlights the intrinsic benefits of conducting a regular self-review, including increased accountability and transparency to the public, creating a foundation for year-over-year comparison and improvement, and providing a regular opportunity to discuss difficult operational issues that were temporarily parked throughout the year/Board term.

Additional sectoral guidance on best practices is compiled by the Canadian School Boards Association, which highlights relevant guidance and leading practices from across Canadian school districts in the areas of student health and wellness, aboriginal education, education in Canada, school governance, and professional development.

Spotlight on – Chilliwack School Board self-assessment: The Chilliwack School Board (District #33) conducts an annual Board Performance Questionnaire and follow-up performance discussion with Trustees to gauge the Board’s effectiveness in terms of its mission and vision, roles and responsibilities, agenda setting, policy, and school board offices and representatives, budget process, curriculum, instruction and student achievement, long-range planning, school board knowledge, school board and Superintendent relationships, communication and public relations, and committee work.¹⁴ The survey covers a number of key areas, such as the roles and responsibilities, budget process, long-range planning, and knowledge and relationships, which are critical components of an effective governance structure.

Spotlight on – Coquitlam School Board annual work plan and performance self- evaluation: The Coquitlam School Board (District #43) creates a Work Plan for each upcoming school year, outlining the time for various actions. The creation of this helpful tool is further reinforced in the District’s Policy Framework as a Board responsibility.¹⁵ A work plan can help to ensure that the Board allows adequate time for decision-making and that the Board understands and meets its responsibilities for the upcoming year. Additionally, the Board conducts an annual self-evaluation as a complementary process to the Superintendent Evaluation process, enabling the Board to assess their own performance in achieving objectives, compliance with policies and the Work Plan, and overall communication amongst the Board and its stakeholders.¹⁶

Spotlight on – Surrey School Board’s internal audit function: The Surrey School Board’s (District #36) has an established internal audit function as part of the Administration in order to conduct independent audits and examinations that provide objective information, advice and assurance to the Board and senior management. Internal audit promotes accountability and best practice in school district operations, and the independent assessment of areas such as compliance of transactions with legislative and board policy, sufficiency of performance measurement and program evaluation activities, asset safeguarding, and economic and efficient use of resources provide a mechanism to measure organizational performance and make recommendations for improvement. The role and authority of internal audit are reinforced by the District’s Policy and Regulation framework.¹⁷

Spotlight on – The Province of Ontario: The Association of Ontario School Trustees has developed a Trustee Professional Development Program that highlights *The Education Act* requirement for a multi-year strategic plan that is refreshed annually. The Association of Ontario School Trustees encourages Boards to take the strategic planning exercise as an opportunity to look at its governance policies and actions, and assess how successful it is in focusing on what matters most to student achievement and good governance.¹⁸

¹⁴ BC School Trustees Association. (2004) “Comprehensive School Board Performance Questionnaire: Version #2 (Chilliwack)”. *School Board Self Review: A Guide for British Columbia School Boards*.

¹⁵ Coquitlam School District No.43 (2012). “Selected Responsibilities”. *Policy Manual: Role of the Board* (1).

¹⁶ Coquitlam School District No.43 (2012). “Board Self-Evaluation”. *Policy Manual: Board Operations* (14 [1-4]).

¹⁷ Surrey School District No.36. (1999). *Policy: Internal Audit*.

¹⁸ Association of Ontario School Trustees. (2015) “Module 5b: Board Self-Assessment: Governance Performance”. Trustee Professional Development Program. Retrieved from: <http://modules.ontarioschooltrustees.org/en/board-self-assessment-governance-performance.html>

Recommendation 7.4.A

Board of Trustees develop and implement a new strategic plan as a priority for the current year. This plan should serve as a catalyst to develop:

- ▶ Operational plans
- ▶ A performance measurement framework
- ▶ A Board of Trustees self-assessment framework
- ▶ An enterprise risk management (ERM) program, as noted in recommendation 5 below

The formalization of these plans and frameworks will have the added benefit of clarifying Trustee roles and responsibilities between governance and operations.

Note: this recommendation incorporates previous recommendations from the 2010 Office of the Comptroller Review of VBE (re: performance measurement framework and Board of Trustees self-assessment) and the 2015 Resource Allocation Review by PwC (re: operational plans and risk management).

Recommendation 7.4.B - For the MEd

During the course of our analysis of previous recommendations, we identified an opportunity for the Ministry of Education to contribute to the continuous improvement of the Vancouver School District and all school districts in the province by establishing mandatory guidelines for the training and orientation of newly elected Trustees on school boards in the Province. Establishing a mandatory requirement for new Trustees to take orientation, like that deployed by the BC School Trustees Association, ensures that Trustees across the province transition into their new responsibilities with a consistent foundation of knowledge and understanding.

Finding 7.5: Risk management

There is no formal risk management program in place, with risks being assessed as part of isolated projects or programs, and managed at an organization on an ad hoc basis in a responsive manner. Since risks that materialize frequently require resources in order to mitigate, risk management is a component of effective budgeting and planning.

Roles and responsibilities of a standard Board include oversight of risk management, which includes the establishment of a Risk Management Framework or Enterprise Risk Management (ERM) Program.

To date, VBE continues to employ an informal approach to risk management, with no documented enterprise risks, assessment of risk likelihood and impact, and management's risk response. Additionally, the responsibility for risk management oversight is unclear as it is not formally defined in the roles and responsibilities of either the Board or its Standing Committees. There are select risk management processes in place based on VBE's most significant risks, including information privacy, student and staff security, seismic and legal issues. However, there are gaps of risk coverage in areas such as IT, finance, and internal control.

As a result of the informal risk management processes, risk reduction is often reactive in nature (can only be reduced once a risk is realized) and are generally short term solutions. A practical example includes the use of the Local Capital Reserve Fund as a risk mitigation tactic to fund unplanned events, but at the expense of reducing VBE's financial flexibility for more long-term and capital projects.

A formal approach to ERM can assist an organization in not only managing its risks appropriately, but also in achieving its long-term strategic objectives through appropriate resource allocation. Examples of good practices in risk management include the Richmond School District.

Spotlight on - Richmond School Board audit committee: The Richmond School Board's (District #38) established Audit Committee has the formal oversight role over risk management, as a delegated responsibility of the Board.¹⁹ Formalized risk management roles and responsibilities help to ensure an effectively working oversight and accountability process.

Recommendation 7.5.A

Board of Trustees implement an ERM program to ensure that risks are identified and managed on a proactive basis. We advise that this program commence at the strategic level in conjunction with the development of the new strategic plan, and be cascaded into the organization as the strategic plan is operationalized.

Note: this recommendation incorporates previous recommendations from the 2015 Resource Allocation Review Update by PwC.

¹⁹ Richmond School District No.38. (2013) "Audit Committee". About Us: District Committees. Retrieved on 13 May 2015 from: <http://www.sd38.bc.ca/district/committees/Audit>

Recommendation 7.5.B

During the course of our analysis of previous recommendations, we identified an opportunity for the Ministry of Education to contribute to the continuous improvement of the Vancouver School District and all school districts in the province by providing central guidance on an approach and methodology to risk management. Through our analysis, we observed limited examples of a formal risk management process being employed by districts.

The Risk Management Branch of the Ministry of Finance, in conjunction with the MEd, already delivers risk management services focused on insurance and liability risks via the Schools Protection Program - there is an opportunity to expand the SPP's mandate to include the provision of ERM guidance and advice.²⁰ Additionally, while there is generic guidance for ERM from the Government of BC, there is further opportunity for the Ministry of Education to provide guidance and advice that is focused specifically on the education sector and provincial school districts.²¹

This guidance could include a formal risk management methodology tailored to the education sector, a generic framework, and other additional tools that individual districts can leverage and customize. Depending on departmental capacity, districts would also benefit from some hands-on instruction on application of risk management processes, which would further facilitate a consistent implementation of the risk framework across districts.

²⁰ Risk Management Branch: Ministry of Finance. (1987). "Mandate". *Schools Protection Program*.

²¹ Government of British Columbia. (2012). *Risk Management Guideline for the BC Public Sector*.

8. Other Matters

8. Other matters

All other matters that have been identified through the course of this review have been captured in their entirety within sections three to seven above.

9. Summary of recommendations

9. Summary of recommendations

Ref	Recommendation	Ministry of Education	Vancouver Board of Education
Section 3: Budget Development and Forecasting			
3.1	VBE not publicly release the IPP. Disclose only Preliminary Budgets and Amended Budgets to minimize confusion about forecasts		✓
3.2	VBE critically review the seven documents created in preparing the budget, limiting the information published to that which is useful to stakeholders		✓
3.3	VBE include a three-year financial forecast in the Strategic Plan in order to better develop operating priorities. VBE to obtain the proper tools to do efficient long-term planning, such as an integrated forecast model		✓
3.4	The Ministry undertake a review of the holdback process to: <ul style="list-style-type: none"> mitigate the size of the holdback; accelerate the release of the holdback funds This recommendation will benefit school districts province-wide	✓	
3.5	The Board prepare a three-year financial forecast to allow for long-term decision making and the assessment of various options to maintain a balanced budget in keeping with VBE's strategic priorities		✓

Ref	Recommendation	Ministry of Education	Vancouver Board of Education
Section 4: Accumulated Surpluses and Deficits			
4.1	The Board critically review the Amended Budget prior to approval to ensure accuracy of the forecasting, and particularly to account for the deferment of expenses to the next school year prior to the finalization of the Amended Budget		✓
4.2	The Board estimate the in-year Internally Appropriated Expenses not expected to be spent prior to approving the Amended Budget to reduce the difference between the budget and actual operations, consistent with treatment by the Surrey School District		✓
4.3	The Board establish a guidance threshold target for Net Accumulated Surpluses. EY is of the view that a threshold target for Net Accumulated Surpluses of 2% to 3% of VBE operating expenses would be reasonable		✓
4.4	The Ministry establish guidance threshold targets for Net Accumulated Surpluses for all school districts including consideration of the LCR	✓	

Ref	Recommendation	Ministry of Education	Vancouver Board of Education
Section 5: Administrative, Support and Overhead Efficiencies			
5.1	Ministry work with school districts to improve the consistency of reporting revenues and expenses by program and function and should consider regularly benchmarking internal performance across school districts to support school districts with identification of opportunities to increase revenues	✓	
5.2	VBE explore increasing Summer School Enrolment by: <ul style="list-style-type: none"> Offering specialized interest courses Marketing to students in districts without Summer School programs 		✓
5.3	VBE continue to explore options to market underutilized schools in the East-side to international students		✓
5.4	VBE assess the results of the Ministry-led pilot project that aims to explore the provision Distributed Learning to international students. If the Ministry were to change the policy to allow provision of Distributed Learning to international students as a result of the pilot project, VBE to consider marketing Distributed Learning courses to incoming international students as preparation or a head start for attending schools in the Vancouver School District		✓
5.5	VBE explore taking advantage of recent implementation of PeopleSoft by providing shared services and/or host systems for HR and Payroll for other districts		✓
5.6	VBE explore increasing the Miscellaneous Revenues through: <ul style="list-style-type: none"> Reconsideration of a business development team Sale of necessities and providing ATMs on school property Providing more fee-based programs and licensing of intellectual property 		✓
5.7	VBE explore increasing rental and lease revenues through: <ul style="list-style-type: none"> Creating lease space for commercial use or rental to compatible tenants Implementing tiered facility rental rates Rental of rooftops for solar energy, agriculture and/or telecommunications purposes Other school districts could consider this opportunity to increase rental and lease revenues		✓

5.8	In the next round of collective bargaining, VBE to give consideration to reason for the variation identified in student / support staff ratios between VBE and a subset of peer districts, as set out in the Comparative Staffing Levels Report		✓
5.9	VBE continue progressing on the cost efficiencies as recommended in historical reports and management proposals, while continuing to explore opportunities to participate in future provincial shared service offerings		✓

Ref	Recommendation	Ministry of Education	Vancouver Board of Education
Section 6: Capital Asset Management			
Planning			
6.1	VBE develop tactical tools to support the planning process, including those that support more efficient access to centrally held data which inform key planning decisions		✓
6.2	The Ministry consider providing stronger guidance to the District through clear policy guidelines and templates and tools to assist VBE to identify capital asset priorities. These could be applied province-wide	✓	
6.3	VBE must complete the district-wide LRSFP and new Five Year Capital Plan as soon as possible. VBE to consider extending the LRSFP beyond its current 10 year scope in order to better inform long term decision making. Provinces such as Alberta and Ontario use a 10 year period as a basis for long range facilities planning, other districts in the Province (i.e. Surrey School Board) set plans based on enrolment projections that exceed 10 years. Given the size of VBE's capital asset portfolio, which is comparable to Surrey, adoption of a 20 year planning horizon that incorporates a rolling 10 year plan within would better inform long-term decision making		✓
6.4	The Project Definition Report Strategy and Work Plan need to be closely monitored. VBE (and VPO, where applicable) should track and report actual results against the target timeline in the PDR Strategy and Work Plan. This will enable VBE to assess if a further overhaul of its project planning and development strategy is required. VBE to use the PDR Strategy and Work Plan approach on all of its capital projects including non-seismic upgrades and renovations.		✓

Ref	Recommendation	Ministry of Education	Vancouver Board of Education
Section 6: Capital Asset Management			
6.5	VBE assess the benefits of alternative capital project delivery models and commit to the model that maximizes use of funds and gets best values for money		✓
6.6	VBE adopt a template school design standard (where appropriate) that is scaleable to capacity needs; thereby, limiting out-of-scope work and change orders. In addition, template construction allows for greatest cost certainty and more timely construction		✓
6.7	VBE establish proactive and clear communication with the City of Vancouver to clearly understand planning requirements		✓
6.8	The Ministry review current approach and look for improvement opportunities in validating the quantity surveying budget and explore the opportunity to coordinate a province-wide quantity surveying shared service	✓	
6.9	The Ministry consider imposing standard province-wide monthly reporting requirements on construction progress to ensure it is kept appraised of performance against Project Agreements	✓	
6.10	In conjunction with Recommendation 6.5, VBE should change its procurement approach to align with common BC practice and industry best practice, by either: 7) moving to the open market tendering approach followed by the Surrey School Board and most other school districts in the Province, or 8) building into their pre-qualified bidders agreements more quality and value for money drivers		✓
6.11	VBE, where appropriate, procure services and delivery partners for multiple projects at a single time in order to gain economies of scale, consistency in quality and efficiencies in procurement and delivery costs and efforts		✓
Excess Surplus Capacity			
6.12	The Ministry consider inclusion of international students in its methodology for calculating utilization	✓	
6.13	VBE to conduct a thorough review of the current annual net cost savings related to a reduction in excess surplus capacity to support decisions on capacity rationalization. The review should include a study of the relationship of the physical space to the incremental cost of education and include scenario modelling		✓

Ref	Recommendation	Ministry of Education	Vancouver Board of Education
Section 6: Capital Asset Management			
6.14	VBE immediately engage a real estate professional to conduct a market study and prepare a valuation of its priority K-12 lands, and K12 capacity rationalized lands (where anticipated), to assist in a scenario planning process, within a six month timeline		✓
6.15	<p>When assessing capacity rationalization, in addition to cost savings and the non-financial impact, VBE should include assessment criteria to evaluate the opportunities for the generation of proceeds from the retired or repurposed capital assets.</p> <p>As a component of this capacity rationalization assessment, VBE must address future capacity requirements of the District based on long term enrolment expectations, and such must be a defined element and variable of the LRSFP. VBE should use scenario planning to assist it in its capital planning and to optimize its portfolio (i.e. sale and relocation)</p>		✓
6.16	VBE continue to explore opportunities with the CoV to generate additional revenue on its capital assets		✓
6.17	VBE continue to assess the education impacts and benefits as part of any capacity rationalization, school consolidation or school closure business case		✓
6.18	<p>VBE commit to considering capacity rationalization in its Strategic Plan, Capital Plan and Long Range Strategic Facilities Plan.</p> <p>VBE update its Guiding Principles to reflect its district-wide utilization target of 95%</p>		✓
6.19	Board provide guidance to District Management Team on criteria for inclusion of school on the Preliminary List. This criteria should include school performance, student engagement measures, current and projected utilization, incremental operating costs per student, facility condition and seismic risk		✓
6.20	VBE should undertake school closure process simultaneously for multiple schools identified in the Preliminary List		✓

Ref	Recommendation	Ministry of Education	Vancouver Board of Education
Section 6: Capital Asset Management			
6.21	VBE consider changes to its school closure protocol to increase timeliness of decision making and realization of the financial and non-financial benefits available through capacity rationalization		✓
6.22	VBE include analysis of sale, lease and retention options in its assessment of capacity rationalization		✓
6.23	VBE and the Ministry to agree on the availability of proceeds and impact on future funding in advance of a decision to undertake capacity rationalization		✓
6.24	VBE undertake an assessment of capacity in school lands to understand options for generating additional future on-site capacity (e.g. new buildings at existing school, additional levels to existing buildings)		✓
Seismic Mitigation Program			
6.25	<p>VBE prepare scenario analysis models to assess the variance impacts on available capacity during the SMP. Holistic analysis needs to be undertaken based on the results including both costs savings and proceeds that can be generated from school closure that becomes available with the provision of temporary accommodation.</p> <p>VBE should track the trend of student movement from non-upgraded schools to new seismically upgraded schools to determine whether a correlation exists between enrolment and facility upgrades. This will help support future decisions around closures and replacement over upgrade.</p>		✓
6.26	Where VBE is able to show a benefit, the Ministry should consider providing funding support for temporary accommodation during SMP upgrades to enable immediate closure of excess capacity	✓	
6.27	VBE assess opportunities to avoid SMP projects in its capacity rationalization criteria		✓
6.28	VBE track the impact of right-sizing under the SMP to assist it in identifying further opportunities and also to support future decisions weighing replacement against seismic upgrade. VBE should also undertake a cost benefit analysis when assessing the appropriateness of replacement over seismic upgrade		✓

Ref	Recommendation	Ministry of Education	Vancouver Board of Education
Section 6: Capital Asset Management			
Deferred Maintenance			
6.29	In conjunction with Recommendation 6.1 and 6.3, VBE develop a robust, maintenance plan based on least cost over life cycle, to assist it in identifying and addressing facility priorities		✓
6.30	VBE track annual maintenance on a school-by-school basis to support business case to support business cases for capacity rationalization		✓
6.31	VBE undertake a study on the relationship of physical space to the incremental cost of education to support business decisions to reduce surplus capacity		✓
6.32	Facilities management is a non-core service and we agree with PwC's recommendation that VBE should evaluate the benefits of implementing a mobile maintenance workforce and extend this to assessing the benefits and opportunities for alternative service delivery models in the medium to long term		✓
6.33	<p>Other school districts, including Central Okanagan and Surrey, have used school closure to address the growing gap between maintenance funding and maintenance needs.</p> <p>VBE should factor the deferred maintenance obligations of its schools when identifying and deciding schools for closure and/or upgrade. VBE should develop a cost-benefit metric to assess the value of retaining or upgrading its schools. For example, it could use a deferred maintenance cost per student (as shown above) as part of the criteria for deciding whether the costs of providing education in a facility outweigh the benefits of that location. This analysis needs to be district-wide and not focused on a school-by-school basis. A district-wide approach may provide opportunities to reduce two or three adjacent schools with one new, Right-sized replacement (which will have no deferred maintenance).</p> <p>VBE take a holistic approach in determining whether it is more cost effective to upgrade, replace or close a school.</p> <p>Addressing deferred maintenance at the same time as supported seismic upgrades should be carefully considered given the likely cost savings that are achievable when delivering both capital projects concurrently. Further, there are likely to be financial and student benefits to limiting the disruption of the student population during these concurrent projects</p>		✓

Ref	Recommendation	Ministry of Education	Vancouver Board of Education
Section 6: Capital Asset Management			
Non K-12 Real Estate			
6.34	VBE relocate the Vinery and close Downtown East Adult Education Centre as planned		✓
6.35	VBE immediately engage a real estate professional to conduct a market study and prepare a valuation of its priority non-core lands to better inform decisions on its revenue options, within a six month timeline		✓
6.36	VBE incorporate non-core/non-K12 real estate in its LRSFP		✓

Ref	Recommendation	Ministry of Education	Vancouver Board of Education
Section 7: Board Governance			
7.1.A	VBE continue to action and implement processes and controls to address previous review and audit findings, including making an action plan to prioritize response initiatives		✓
7.1.B	The Ministry revisit previous review and audit findings to determine if recommendations continue to be relevant, and respond appropriately	✓	
7.2	VBE make improvements in the formalization of mechanics of committee meetings		✓
7.3.A	VBE establish an Audit Committee with external members to improve financial oversight		✓
7.3.B	The Ministry establish the legislative requirement for all districts to establish an Audit Committee to support a consistent approach to financial oversight	✓	
7.4.A	VBE develop and implement a new strategic plan, and use it to catalyze the development of operational plans, a performance measurement framework, a Board self-assessment framework, and a risk management program or ERM framework		✓
7.4.B	The Ministry establish a mandatory requirement for the minimum training and orientation required by newly elected Trustees to support a consistent level of knowledge and skills to discharge their duties	✓	

Ref	Recommendation	Ministry of Education	Vancouver Board of Education
7.5.A	VBE implement a formal risk management process or ERM framework to improve risk management and oversight		
7.5.B	The Ministry establish risk management guidance and tools/templates to assist all districts in understanding and employing sound risk management practices	✓	

Ref	Recommendation	Ministry of Education	Vancouver Board of Education
Section 8: Other Matters			
None. Included throughout other sections			

Appendices

APPENDIX A: Documents and materials reviewed

Document	Source organization or author	Date
BC Ministry of Finance Capital Asset Management Framework	BC Ministry of Finance	May 2002
Maintenance budget and actual expenditure data 2009-15	VBE	April 2015
VBE Capital Plan 2013/14	VBE	September 2013
Actual Capacity and Utilization Statistics SY2009/10 to SY2014/15	MEd	March 2015
AFG Allocation Reports 2013-2015	MEd	July 2013
Projected Capacity and Utilization Statistics SY2014/15 to SY2018/19	MEd	March 2015
Report on Proposed Guiding Principles for Strategic Plan	VBE	June 2015
LRSFP Project Charter	VBE	March 2015
VBE Revised PDR Strategy and Work Plan - Draft	VBE	April 2015
Report on Schools Considered for Potential Closure	VBE	October 2010
Report on Proposed Plan for Temporary Accommodation	VBE	February 2015
Report on Comparative Staffing Levels	Bob Janzen	March 2015
2007/08 Financial Sustainability Plan	VBE	December 2007
Seismic Mitigation Program Progress Reports	MEd	2012-2015
Draft PDR Strategy and Work Plan	VBE	March 2015
Office of the Comptroller General, Special Advisor Report on the Vancouver School Board	Ministry of Finance	June 2010
City of Vancouver Heritage Registry	City of Vancouver	June 2014
Overview of Class Size and Composition of SD39 SY2009-2014	MEd	April 2015

Document	Source organization or author	Date
Overview of Class Size and Composition of BC Public Schools, 2009-2014	MEd	December 2009-2014
Guide to Accounting for Tangible Capital Assets	FRA	April 2007
Project Procurement Procedures and Guidelines	MEd	June 2003
Fact Sheet - Class Size in BC	MEd	May 2014
Report on Comprehensive Assessment of VBE School Buildings with Seismic Risk	Coriolis Consulting Corp	2011
Planning and Facilities Committee II Meeting Minutes	VBE	2009-2015
Miscellaneous data on FCI and deferred maintenance	VBE	April-May 2015
Miscellaneous data on funding allocation	VBE	April-May 2015
VBE Memo - Vancouver Seismic Mitigation Project Office	VBE	September 2014
Memorandum of Understanding regarding Vancouver Board of Education Seismic Mitigation Project Office	VBE/MEd	August 2014
Vancouver School Board Audited Financial Statements for SY2004/05 to SY2013/14	VBE	September 2005-2014
Central Okanagan School Board Audited Financial Statements for SY2006/07 to SY2013/14	Central Okanagan School Board	September 2007-2014
Surrey School Board Audited Financial Statements for SY2006/07 to SY2013/14	Surrey School Board	September 2007-2014
Vancouver School Board Fiscal Framework for SY2012/13 to SY2015/16	VBE	March 2012-April 2015
Vancouver School Board Base Budget for SY2010/11 to SY2014/15	VBE	April 2010-2014
Vancouver School Board Preliminary Budget for SY2010/11 to SY2014/15	VBE	June 2010-2014
Vancouver School Board Amended Budget for SY2010/11 to SY2013/14	VBE	February 2011-2014

Document	Source organization or author	Date
Working paper on accumulated surplus, restricted funds and differences between budget and actual surplus from VBE	VBE	March-May 2015
Operating Grants Summary for SY2010/11 to SY2013/14	MEd	June 2011-2014
Various planning documents and maps on VBE website http://www.vsb.bc.ca/vsb-planning-facilities	VBE	April-May 2015
Various planning documents and maps on MEd website http://www2.gov.bc.ca/gov/topic.page?id=00C5FFBE51C44325A845819C007A01E7	MEd	April-May 2015
Press Release - Premier announces \$584 million to keep high-risk schools on solid ground http://www.newsroom.gov.bc.ca/2013/04/premier-announces-584-million-to-keep-high-risk-schools-on-solid-ground.html	MEd	April 2013
Press Release - \$122M for next round of seismic upgrades http://www.newsroom.gov.bc.ca/2012/05/122m-for-next-round-of-school-seismic-upgrades.html	MEd	May 2012
Projection Report for Public School Headcount Enrolment SY2014-15	MEd/BC Stats	March 2015
The Impact of Effective Teachers and Principals	Partnerships for Learning	July 2010
Long term Impacts of Teachers - Teacher Value-added and Student Outcomes in Adulthood	National Bureau of Economic Research	December 2011

Document	Source organization or author	Date
Class size and student achievement: Research review - See more at: http://www.centerforpubliceducation.org/Main-Menu/Organizing-a-school/Class-size-and-student-achievement-At-a-glance/Class-size-and-student-achievement-Research-review.html#sthash.LVqkSK8G.dpuf	Centre for Public Education	May 2015
Class Size: What Research Says and What it Means for State Policy http://www.brookings.edu/research/papers/2011/05/11-class-size-whitehurst-chingos	The Brookings Institution	May 2011
Vancouver School Board Resource Allocation Review 2015 - Interim Report	PricewaterhouseCoopers LLP	April 2015
Vancouver School Board Resource Allocation Review 2012	PricewaterhouseCoopers LLP	2012
Report on the Vancouver School Board	Office of the Comptroller General of British Columbia	June 2010
Standing Committee Orientation Package	Office of the Secretary-Treasurer, VBE	September 2014
Board and Standing Committee Monthly Schedule April 2014 - July 2015	VBE	April 2015
Open Board Agendas: April 2014 - April 2015	VBE	April 2014-2015
Open Committee I Agendas and Minutes: April 2014 - April 2015	VBE	April 2014-2015
Open Committee V Agendas: April 2014 - April 2015	VBE	April 2014-2015
Private Board Agendas: April 2014 - April 2015	VBE	April 2014-2015

Document	Source organization or author	Date
Private Committee I Agendas: April 2014 - April 2015	VBE	April 2014-2015
Private Committee V Agendas: April 2014 - April 2015	VBE	April 2014-2015
Job Description for the Superintendent of Schools	VBE	
Job Description for the Secretary-Treasurer	VBE	
Committee Representatives to the VBE and Other Committees 2014-2015	VBE	April 2014
Vancouver Board of Education Standing Committees SY2014-2015	VBE	April 2014
BC's Education Plan: Update	MEd	January 2015
Inner City Schools Project Review: Report and Recommendations	Vancouver Board of Education	May 2009
Vancouver School Board Sectoral Review: Our Schools, Our Programs, Our Future	VBE	June 2012
Ministry of Education: Service Delivery Transformation, Shared Services Implementation	Deloitte	July 2014
BC Ministry of Education and School Districts: Service Delivery Transformation Final Report	Deloitte	August 2012
Service Plan SY2015/16 - SY2017/18	MEd	February 2015
District Plan for Student Learning SY2014/2015	VBE	2014/2015
Preliminary Operation Budget SY2013/2014	VBE	2013-2014
Annual Budget SY2013/2014	VBE	June 2013
Amended Annual Budget SY2013/2014	VBE	February 2014
2013/2014 Audited Financial Statement	VBE, KPMG	September 2014
Preliminary Operation Budget SY2014/2015	VBE	2014-2015
Annual Budget SY2014/2015	VBE	June 2014
Amended Annual Budget SY2014/2015	VBE	February 2015

Document	Source organization or author	Date
Vancouver Board of Education Organizational Chart	Vancouver School Board	January 2015
Budget 2015 Consultation: Submission to the Select Standing Committee on Finance and Government Services	Vancouver School Board	September 2014

APPENDIX B: Interviews completed

Interviewee	Title
Vancouver School District resources	
Chris Allen	Risk Manager
Helena Drury	Supervisor of Financial Reporting and Compliance
Chona Caparas	Trustee Support
Ishver Khunguray	Supervisor of Budget and Forecasting
Rick Krowchuk	Secretary-Treasurer
Lisa Landry	Director of Finance
Jim Meschino	Director of Facilities
Scott Robinson	Superintendent
Janet Stewart	Assistant Superintendent of Human Resources
Board of Trustees	
Allan Wong	Trustee, Member of Committee V
Christopher Richardson	Chair of the Board, Member of Committee V
Janet Fraser	Trustee, Chair of Committee V
Patti Bacchus	Trustee, Past Chair of the Board
Mike Lombardi	Trustee, Member of Committee V
Ministry of Education	
Ian Aaron	Director, School District Financial Reporting Branch
Lesley Ballman	Regional Director, Capital Planning and Major Projects
Shanna Mason	Assistant Deputy Minister, Planning and Major Projects

APPENDIX C: Budget documents prepared by VBE for SY2015/16

Below is a summary of the SY2015/16 budget documents²² prepared by VBE, with comments:

	Document	Content
1.	An inter-office memorandum dated January 9, 2015 to the Finance and Legal Committee: "2015/2016 Shortfall Update"	<p>The document provides an overview of the initial projected shortfall (the Base Budget) and Budget Updates to revise the shortfall from \$27.64M to \$15.05M.</p> <p>The revisions include:</p> <ul style="list-style-type: none"> ▶ SY2013/14 unrestricted surplus - \$5.83M ▶ Employee benefits over contributions - \$1.94M ▶ Sale and leaseback and reduction of furniture - \$3.30M ▶ SY2014/15 holdback allocation - \$1.53M
2.	An inter-office memorandum dated February 20, 2015 to the Finance and Legal Committee: "2015/2016 Shortfall Update"	<p>The document refers to the initiatives adopted by the Committee to adjust the shortfall to \$18.34 and additional initiatives to reduce the shortfall to \$8.57M, including:</p> <ul style="list-style-type: none"> ▶ Sale and leaseback and reduction of furniture - \$3.30M ▶ SY2014/15 budget surplus - \$5.41M ▶ SY2014/15 ongoing impact - \$0.84M ▶ SY2015/16 enrolment update - (\$0.40) ▶ School calendar - \$0.63M

²² Per VSB's website

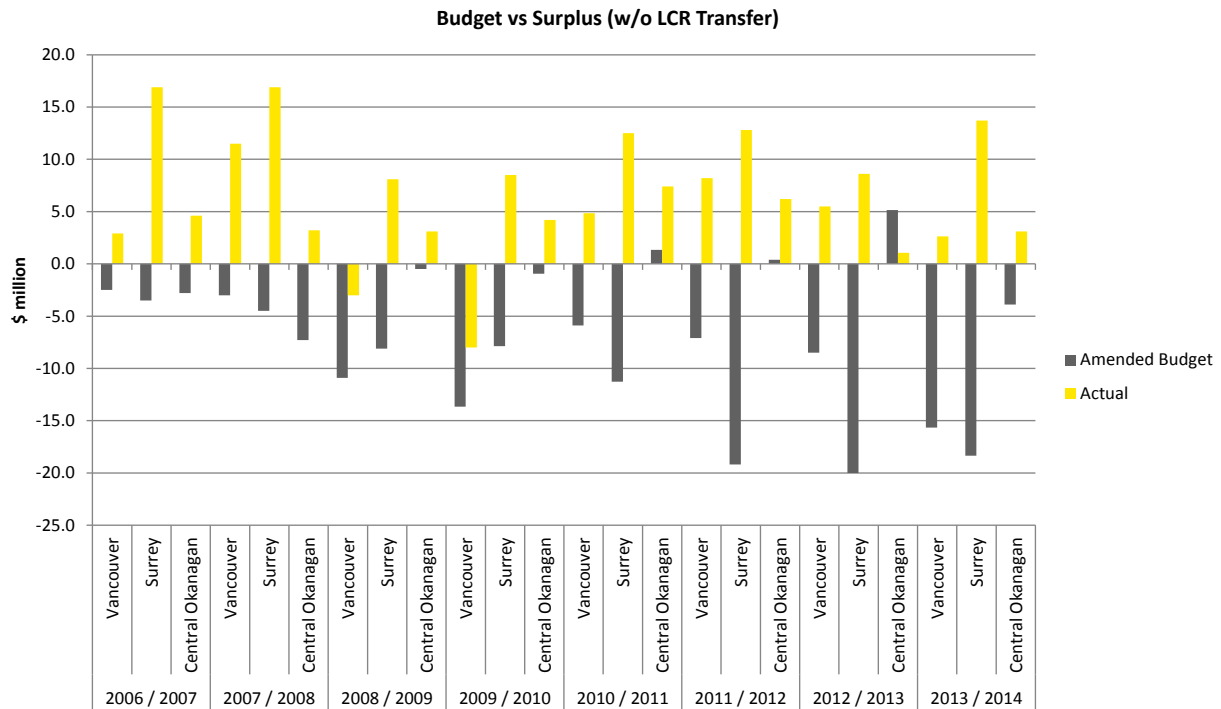
	Document	Content
3.	The SY2015/16 fiscal framework prepared by the Secretary Treasurer and Director of Finance, dated March 2015 to the Education & Student Services and Finance and Legal Committees	<p>The document contains:</p> <ul style="list-style-type: none"> ▶ Historical financial amended budget information for the SY2009/10 to SY2014/15 with comparative enrolment, staffing, revenue and expenditure information ▶ The SY2015/16 Base Budget section, including the major assumptions ▶ A summary of revenue and expense by type and the projected SY2015/16 operating funding shortfall ▶ The LCR section with an updated projection for SY2015/16 ▶ The preliminary operating budget projection section for SY2016/17, with key assumptions used ▶ A section on long-term financial sustainability
4.	The Preliminary Budget Proposals for SY2015/16 dated March 31, 2015 prepared by the Senior Management Team for the Education and Student Services and Finance and Legal Committees	<p>The report includes preliminary budget proposals identified by the Senior Management team to achieve a balanced budget for SY2015/16.</p> <p>Specific topics included are:</p> <ul style="list-style-type: none"> ▶ SY2015/16 base budget projections ▶ Preliminary Budget Proposals totaling \$8.5M to balance the SY2015/16 budget ▶ Local Capital Reserve projections ▶ SY2016/17 Preliminary Financial projections ▶ Additional provincial funding for the Education Plan Supplement (\$1.00 million) and the Learning ▶ Improvement Fund (\$9.24 million) ▶ Additional expenditures proposed, both at the district and school level, to address areas of particular need

	Document	Content
5	A Restoration Budget prepared by the Secretary Treasurer and the Director of Finance dated March 31, 2015 for the Education and Student Services and Finance and Legal Committees	<p>The purpose of the report was to identify the additional funding that would be required by VBE in order to “restore the same level of service that was in place over a decade ago.”</p> <p>For purpose of the analysis, the SY2002/03 base budget (before budget cuts) was chosen.</p> <p>The conclusion was that the SY2015/16 operating budget would have to be in the order of \$553.7M to be able to deliver the same level of service that was in place before the SY2002/03 budget cuts. The Base Budget’s revenue for SY2015/16 was forecasted at \$494.2 million. Accordingly, VBE concluded it would need approximately \$59.5 million in additional annual funding “in order to provide the same level of service as was delivered prior to the SY2002/03 budget cuts.”</p>
6.	An infographic detailing the SY2015/16 Preliminary Budget, providing details of public and stakeholder meetings	<p>The projected shortfall was estimated at \$8.5M. The report contains proposals to balance the budget, including:</p> <ul style="list-style-type: none"> ▶ Sale and leaseback, furniture and equipment and print management - \$3.5M ▶ Maintenance reductions, closure of classroom space - \$0.5M ▶ Provincial holdback funds, lease of underutilized space - \$0.9M ▶ Band and strings program, international education, adult education, K-12 teaching allocation - \$2.0M ▶ Other - \$2.6M
7	An inter-office memorandum dated April 21, 2015 from the Senior Management Team to the Plenary Education and Student Services and Finance and Legal Committees: “2015/2016 Revised Preliminary Budget Proposals”	<p>The memorandum refers to Preliminary Budget Proposals and the consultations that took place with Stakeholders and the public. In total, 30 speakers provided comments. Written submissions were also received and forwarded to the Trustees.</p> <p>Additional budget proposals were submitted:</p> <ul style="list-style-type: none"> ▶ Holdback funds - \$0.13 ▶ Lease, band and strings increases - (\$0.13) <p>A further committee was scheduled to receive comments on the Revised Budget proposals</p>

	Document	Content
8	A note from VBE dated May 1, 2015 “VSB ²³ 2015/2016 Preliminary Operating Provisions Budget Approvals”	<p>On April 30, after four weeks of stakeholder and public engagement, the Vancouver Board of Education provisionally adopted a balanced SY2015/16 Preliminary Operating Budget.</p> <p>The Board is expected to approve the final Preliminary Budget on June 29, 2015 after it has considered the recommendations of this Report.</p> <p>The note summarizes all the budget approvals.</p>

APPENDIX D: Comparison between the budgeted deficit and actual surplus

The table below provides a comparison between the budgeted deficit and actual surplus and excludes transfer to and from the LCR:



Source: VBE Management and budget documents

APPENDIX E: Accumulated surplus restricted funds

The table below describes the build-up of the accumulated surplus funds over a ten year period:

School year	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Prior Year Remaining Unrestricted Operating Surplus to Fund										
Next Year's Budget										703,284
School Budget Balances	778,322	1,046,915	954,483	2,245,915	1,578,817	634,961	1,015,646	757,498	1,117,341	2,415,594
Collective Agreement Requirements	468,849	599,813	809,151	328,015	525,741	741,674	969,969	2,008,883	1,830,568	1,157,894
Purchase Order Commitments	635,483	305,453	2,026,885	612,789	2,329,608	1,629,297	2,304,819	2,515,930	1,676,738	1,785,255
Funds Required to Complete Projects in Progress										
Technology Infrastructure (wired / wireless upgrade)							845,605	1,285,114	65,532	
Hardware Refresh									349,895	
Environmental Sustainability Initiatives					50,000	22,340	14,002	12,572	14,208	
Mandarin Bilingual Program							48,724	31,281	33,330	38,021
Aboriginal Education				13,000	175,000	109,000	60,000	283,814	185,649	216,955
Social Responsibility								42,589		29,027
Montessori								51,469	46,529	45,161
DPAC							28,686	105,196	47,032	43,206
New School Accounting Model - First Year Support							57,980	3,880	15,662	
HRIS Risk Management			47,229		100,000	40,000	46,307	8,676	44,717	251,934
Ed Centre Reconfiguration			150,000	100,000		50,000	189,200	22,000	59,960	22,836
IT Projects			50,000	650,000	229,700			360,988	258,720	213,284
Principal/Vice-Principal Severance Payout									150,000	
Lighting Upgrades funded by Energy Savings program									216,052	
ERIP Retirement									1,048,686	
Health and Safety - Emergency Bins									65,000	
Ministry of Children and Family - Genesis Program										269,856
Emergency Radio Purchase/Other Emergency Preparedness		35,000			154,420					180,000
The Education Plan									828,297	1,678,254
Adult Education furniture purchases								200,000		20,000
Special Education Projects in Progress										211,000
Learning Services Surplus Carryforward										87,000
UBC Grant-in-Aid Support								44,717		
Continuing Education Provision						15,000		250,000		
Sectoral Review								50,000		
Aboriginal Focus School – facility enhancements									180,000	
Furniture purchases for Kitchener and U-Hill									48,000	
RFP in Progress for the Replacement of Photocopiers				100,000		334,220				
Recycling Program				-	240,000	151,746				
Cafeteria Equipment Replacements				130,000	425,000	32,424				
E-Pro/OWP Replacement - Project Management			130,000	130,000	130,000	57,980				
Provision for Educational Facilities Review				150,000	150,000					
SEMS Replacement			200,000	200,000	200,000					
Provision for Capital Asset Management (FMS) System				300,000	300,000					
ESL Learners					71,000					
Employee Wellness					148,300					
Employee Training (Student Security and Well Being)					146,575					
BCeSIS Licensing Fees/Software Maintenance			345,000	692,000	20,000					
UT - Active Directory Project				178,867						
Replacement of Classroom Furniture				300,000						
Provision for Education/DMT Initiatives				400,000						
Learning Inquiry Sites - 2007/08 Staffing			61,246	23,662						
Musquem Education Centre	83,867	109,252	134,077							
Portal Framework for VSB										
Learning and Development Initiative				200,000		42,342				
Strategic Initiative Fund Program			49,000							
Short Term Intervention Behaviour Strategies			56,300							
Others	7,275	60,089	61,766		32,500			20,000		
Total Funds Required	91,142	370,887	1,341,734	3,343,867	2,572,495	855,052	1,290,504	3,000,297	3,429,269	3,306,536
Distributed Learning Funding for Courses in Progress			432,312	1,103,500	389,315	312,000	578,911	310,930	213,699	213,699
Financial Provisions			225,000	400,000	400,000	400,000	100,000	150,000	150,000	-
Miscellaneous Grants Funding	250,057	1,015,158	729,553	2,038,010	1,319,967	1,008,985	1,057,496	1,340,147	2,437,202	2,427,458
Operating Surplus Transferred to Fund Next Year's Budget										
Projected Prior Year Surplus to be Carried Forward				5,735,256	4,256,491	2,080,397	4,901,362	5,676,351	9,292,174	11,110,322
Holdback Release					404,411			770,000	-	585,537
Benefit Surplus Withdrawal								700,165		
Net Strike Savings								730,000		
Total Surplus Transferred	-	-	-	5,735,256	4,660,902	2,080,397	4,901,362	7,876,516	9,292,174	11,695,859
Internally Restricted Surplus at June 30	2,223,853	3,338,227	6,519,117	15,807,352	13,776,845	7,662,366	12,218,707	17,960,201	20,146,991	23,705,578

Source: VBE Management and budget documents

APPENDIX F: Progress review of previous findings and recommendations for the governance work stream

The governance work stream conducted a detailed analysis of VBE's progress in addressing previous findings and recommendations. The following reports were reviewed and assessed for progress, and the recommendations are referenced in the body of the table as per below:

- ▶ 2010 Vancouver School Board Review by the Office of the Comptroller General of BC (OCG, Rec #)
- ▶ 2012 Resource Allocation Review by PwC (PwC 2012, Rec #)
- ▶ 2015 Resource Allocation Review Update by PwC (PwC 2015, Rec #)

Previous recommendations	Status
1. Oversight and responsibilities	
Governance roles and responsibilities <ul style="list-style-type: none"> ▶ (OCG, 1) That VBE 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. ▶ (OCG, 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. ▶ (OCG, 8) That the Board focus on fulfilling its stewardship responsibilities related to the provision of education 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. ▶ (OCG, 10) That outside expertise be employed to work with the Board and management to implement the governance improvement recommended here (including improvements to the Committee structure and better balance across accountabilities) along with any additional steps required to facilitate an effective working relationship between Trustees and district management. 	Overall status: in progress <ul style="list-style-type: none"> ▶ Analysis indicates that the current complement of Trustees, on an overall basis in Committee V, balances advocacy and stewardship of assets responsibilities. ▶ The Board continues to employ a consensus approach to decision-making, and considers stakeholder consultation a critical component of the decision-making culture. ▶ The Board provides some strategic direction, but strategic planning processes are limited and not regular. There is opportunity to enhance the level and integration of strategic planning with operational planning that will inherently assist in balancing the Board's responsibilities for stewardship and advocacy. ▶ While the governance structure is informally reviewed by the Board and the Management and Coordinating Committee, a formal governance review or initiative to revise the governance structure has not taken place.

Previous recommendations	Status
<ul style="list-style-type: none"> ▶ (OCG, 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. 	
Governance structure <ul style="list-style-type: none"> ▶ (OCG, 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: <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. ▶ (OCG, 4) That the Board reduce the number of Trustees on the Management and Coordinating Committee and on the Personnel and Staff Services Committees to four or fewer. 	Overall status: in progress <ul style="list-style-type: none"> ▶ Analysis indicates that there is still significant room for improvement in defining the role and process for receiving stakeholder input as part of Committee proceedings. ▶ The Management and Coordinating Committee currently have five Trustee members (Chair and the Chairs of the remaining Standing Committees). ▶ The Personnel and Staff Services Committee has four Trustee members.
Audit committee <ul style="list-style-type: none"> ▶ (OCG, 6) That the Board establishes an Audit Committee to provide oversight and make recommendations in respect of the Board's fiduciary responsibilities to the organization. ▶ (OCG, 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. 	Overall status: not actioned <ul style="list-style-type: none"> ▶ While the Finance and Legal Committee provides some oversight of the financial management and reporting of VBE, an Audit Committee has not been established.
Financial Planning <ul style="list-style-type: none"> ▶ (OCG, 23) That VBE improve its budget process by periodically undertaking a zero-based budgeting exercise to validate its incremental budget. ▶ (OCG, 24) That VBE improve the balance and transparency of its budget consultation documentation by: <ul style="list-style-type: none"> ▶ Including appropriate context, projected revenues, expenditures, and projected operating deficit/surplus ▶ Ensuring information included is clear and complete 	Overall status: in progress <ul style="list-style-type: none"> ▶ (PwC 2015, 7.5) VBE implemented monthly budget shepherd processes and a quarterly budget forecast assessment; use of Key Performance Indicators and financial dashboards are in the initial stages of development. VBE continues with centralized budget monitoring and accountability model for consistency of assumptions. ▶ VBE has significantly improved its financial transparency, providing quarterly updates to the Board on projected and actual expenditures and the forecast for the remainder of the fiscal year, and improving the availability and centralization of

Previous recommendations	Status
<ul style="list-style-type: none"> ▶ posting its amended budgets and audited financial statements in the same part of its website as the preliminary budgets ▶ (PwC 2012, 7.5) VBE should consider reviewing the current budget accountability model and facilitating continuous budget planning with more effective budgeting tools. This would help monitor the overall financial position in order to make proactive decisions linked to the previous plan. 	<p>financial information on VBE website.</p> <ul style="list-style-type: none"> ▶ Analysis indicates there is room for improvement in the periodic undertaking of a zero-based budgeting exercise, as an incremental budget process continues to be used. ▶ There is room for improvement in the measurement of cost efficiencies achieved through cost-cutting measures implemented as part of previous years' budget planning processes.
Financial management <ul style="list-style-type: none"> ▶ (OCG, 26) That VBE prepare projections and forecasts on an established schedule and retain the supporting documentation. ▶ (OCG, 27) That VBE 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 risks. 	Overall status: actioned and completed <ul style="list-style-type: none"> ▶ VBE employs a Budget Shepherd process to analyze departmental budget projections, actual expenditures, and forecasts for the remainder of the year on a monthly basis. ▶ VBE reports the results of the Budget Shepherd process via quarterly financial reports to the Board, which provides explanations and impacts of the variances between budget, forecasts, and actual expenditures.
2. Independence	
Independence <ul style="list-style-type: none"> ▶ (OCG, 9) That the Board takes immediate steps to fully address concerns about the lack of impartiality of several of the Trustees and ensure an effective working relationship is established between the Trustees and the District Management Team. ▶ (OCG, 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. ▶ (OCG, 18) That the Minister and Board take steps to determine whether the potential for Trustee conflict of interest has been realized. 	Overall status: in progress <ul style="list-style-type: none"> ▶ Analysis indicates there is regular practice to identify real or perceived conflicts of interest of individual Trustees during Board and Committee proceedings. ▶ There is room for improvement in the definition and documentation of the processes to manage conflicts of interest and the avenues of corrective action.
3. Skills and knowledge	
Skills and knowledge <ul style="list-style-type: none"> ▶ (OCG, 14) That the Board of Trustees, with the support of VBE staff, develop a competency-based approach to Trustee orientation and training, including a formal process for: <ul style="list-style-type: none"> ▶ Identifying the competencies required; 	Overall status: not actioned <ul style="list-style-type: none"> ▶ Trustees participate in the Orientation sessions offered at the commencement of each Board term, and are provided with Board and Committee materials. ▶ A competency-based approach to Trustee

Previous recommendations	Status
<ul style="list-style-type: none"> ▶ Identifying any "competency gaps" that need to be filled; and ▶ Filling these gaps through training or access to outside expertise. 	orientation and training or an approach to identifying and remediating competency gaps of the collective Board have not been implemented.
5. Risk management	
Enterprise risk management <ul style="list-style-type: none"> ▶ (PwC 2012, 7.11) VBE should consider the implementation of an Enterprise Risk Management model to provide the framework to create a controlled risk environment where employees are able to work in optimal learning conditions with minimal risks to themselves and students. 	Overall status: not actioned <ul style="list-style-type: none"> ▶ (PwC 2015, 7.11) VBE has identified and focused on key risk areas for the district such as physical infrastructure, financial risks, and privacy. VBE should consider implementing a formal risk management approach. ▶ While financial risks are considered during the financial planning and oversight processes, risk management continues to be an informal process at VBE. There is opportunity for strengthening risk management by adopting a formal framework, or by incorporating a formal process into strategic and operational planning processes.
6. Performance monitoring	
Strategic planning <ul style="list-style-type: none"> ▶ (OCG, 20) That VBE develop a strategic plan that establishes direction and priorities. The plan should: <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. ▶ (OCG, 21) That VBE support its strategic plan through a long range financial management plan to steer the district to financial stability. ▶ (OCG, 39) VBE ensure that revenue opportunities and cost containment strategies through leases and consolidation of alternate school properties are part of a comprehensive district-wide facilities plan. ▶ (PwC 2012, 7.1) VBE should consider developing divisional operating plans that link directly to the five-year Strategic Plan. 	Overall status: in progress <ul style="list-style-type: none"> ▶ (PwC 2015, 7.1) Additional focus is required to establish a consistent district-wide operating plan that aligns with VBE strategic objectives and links to performance management. ▶ In response to this recommendation, VBE developed a five-year Strategic Plan for 2010/11-2015/16 fiscal years. The plan is to update the Strategic Plan in the fall of 2015. ▶ While the Strategic Plan is referenced during annual planning processes, Key Performance Indicators that define progress against the plan are limited. There is no regular process to update the Strategic Plan, such as on an annual basis for example. The Strategic Plan is not well-integrated into other district planning, monitoring, or reporting exercises.
Performance monitoring <ul style="list-style-type: none"> ▶ (OCG, 25) That VBE: <ul style="list-style-type: none"> ▶ Conduct the program service review original planned for the 2010/2011 budget process 	Overall status: in progress <ul style="list-style-type: none"> ▶ Performance reviews have been conducted over certain components of VBE's programs, including a Sectoral Review and the Inner City Schools Program Review.

Previous recommendations	Status
<ul style="list-style-type: none"> ▶ Revisit school closures ▶ Stop funding non-core services ▶ Increase rental rates ▶ Work with unions to negotiate concessions 	<ul style="list-style-type: none"> ▶ A comprehensive review of VBE's programs and services, and identification of an action plan in response to the comprehensive review has not been conducted.
7. Compliance	
Compliance <ul style="list-style-type: none"> ▶ (PwC 2012, 7.1) VBE should consider developing a rigorous accountability model and updating documents around its policies, procedures and plans. 	Overall status: in progress <ul style="list-style-type: none"> ▶ (PwC 2015, 7.1) Policy reviews and updates have been completed in some departments. ▶ VBE's Policy Framework does not undergo regular review and revision by the Board, as per policy requirement. However, there is an initiative currently underway to refresh VBE's policy framework to align it with accountabilities and legislative requirements.
Performance assessment <ul style="list-style-type: none"> ▶ (OCG, 15) That VBE Board of Trustees implements a self-assessment framework to annually measure its effectiveness. Consideration should be given to sharing the results of this assessment publicly. 	Overall status: not actioned <ul style="list-style-type: none"> ▶ The Board does not conduct any self-assessment activities on its overall performance of competency profile.
Other matters	
Ministry specific <ul style="list-style-type: none"> ▶ (OCG, 2) That the Ministry reviews the current co-governance model to ensure it is meeting the needs of the public education system ▶ (OCG, 11) That the Ministry considers developing an avenue by which staff, trustees, and stakeholders can have their concerns [about independence and impartiality] reviewed and addressed. ▶ (OCG, 13) That the Ministry promotes fiscal responsibility and integrated planning in school districts through a revised achievement contract approach that links services and resources to outcomes. ▶ (OCG, 16) That the Ministry makes Trustee participation in orientation and training mandatory to support Board of Trustee effectiveness. ▶ (OCG, 19) That the Ministry reviews Conflict of Interest provisions set out in the School Act and strengthens the provisions for remedy. ▶ (OCG, 22) That the Ministry should develop a long term strategic plan for education to facilitate better long term planning in the school districts ▶ (OCG, 28) That the Ministry provides clear expectations to districts for how to present financial information. ▶ (OCG, 30) That the Ministry considers establishing a standard chart of accounts for school districts that would allow for meaningful comparison of revenues and expenditures between districts. ▶ (OCG, 31) That the Ministry takes a leadership role in facilitating the development of shared services arrangements for school districts. 	

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