

# **Forensic Audit of Board Expenses and Review of the Vancouver School Board**

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October 17, 2016

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Peter Milburn

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October 17, 2016

Honourable Mike Bernier  
Minister of Education

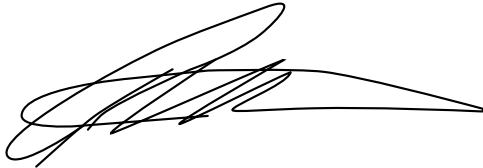
Dear Minister Bernier:

Please find my attached report and summary of recommendations, as well as an appended report by EY. The forensic audit and report are consistent with the Terms of Reference from July 18, 2016, and your subsequent direction from October 6, 2016.

I want to take the time to thank the Trustees at the Vancouver School Board, the staff of the Board, the staff of the Ministry of Education, as well as former staff who agreed to be interviewed, Board Chairs and Superintendents of other school districts, and the representatives of the BC School Trustees Association and the BC School Superintendents Association.

I hope this report will help you in your deliberations on the next steps to improve the governance and oversight of the Vancouver School Board.

Sincerely,

A handwritten signature in black ink, appearing to read 'Peter Milburn', with a long horizontal stroke extending to the right.

Peter Milburn

## TERMS OF REFERENCE

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The terms of reference for the review are as follows:

- Conduct a forensic audit of the board's expenditures.
- Conduct a full review of the board's operations and governance, including assessment of the extent to which the board has considered the information presented by management in decision making.
- Assess the effectiveness of the board's oversight of the district, including the skills, training and experience of the board to fulfill its statutory and fiduciary duties.
- Assess the district's 2016-17 budget reduction strategies and consider other potential opportunities to achieve a balanced budget that would have less of an impact on classroom instruction.
- Assess 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.
- Submit a final report to the minister no later than Sept. 30, 2016.

The Ministry granted an extension for the review to October 21, 2016 so that the impact of recent decisions made by the Vancouver School Board could be considered and included below.

## EXECUTIVE SUMMARY

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This review of the Vancouver School Board (VSB or the Board) was conducted by Peter Milburn, with support from professional services audit firm EY, by request of the Minister of Education. The review is separated into three core sections directly related to the Terms of Reference, and includes a summary of recommendations.

### 1. Forensic Audit:

- Full forensic audit of the expenses of the VSB Trustees, and appended report by EY.

### 2. Governance Review:

- Review of the Board's operations and governance.
- Review of the effectiveness of the Board's oversight of the district (including the skills, training and experience of the Board).
- Review of the systems and practices in place to monitor the organization's performance.

### 3. Financial Review:

- Review of the district's 2016-17 budget reduction strategies.
- Provide a path to a balanced budget, limiting the impact on classrooms.

The review includes 28 total recommendations, including a number of additional recommendations from EY in the appended report.

The findings of this review are in line with other reviews of the VSB in recent years. This report finds similar issues related to the Board's governance, oversight, performance measurement, and budgetary practices that have been identified over the years. However, the context of this review is substantially different, as this year, the Board of Trustees failed to pass a balanced budget — a fundamental principle of the education governance model for the Province of British Columbia, evidenced in both law and practice.

British Columbia's education system has several levels of authority and responsibility for decision making. The provincial government has the authority to set legislation, policy, and funding for the education system. This includes establishment of the total funding available to each school district. The system used by the Ministry of Education to determine funding levels is based on a multidimensional formula that is directly related to the number of students per school district. The system is constructed on the principle that the province is responsible for determining the appropriate funding per student.

The primary role of school boards is to make the fundamental choices necessary to reflect the education priorities of the region within the funding envelope set by the provincial government. Managing such budget constraints is the cornerstone of corporate stewardship.

The *School Act* and Ministry of Education policies do not contemplate a situation where a Board fails or refuses to pass a budget and simply continues to operate. This type of ad hoc approach is not only contrary to law but also creates operational uncertainty for the Vancouver School District (VSD or the District), including confusion regarding which entity or individuals have the authority to affect employment conditions or make changes to the fiscal plan of the current year. It also creates a fundamental uncertainty for a school board to generate an amended budget when there has been no preliminary budget created by the June 30, 2016 deadline.

Since 1995, the Ministry of Education's records indicate that the VSB is the only school board in the province to not pass a budget. Over the same time period there have been only two school districts that have submitted deficit budgets (SD 44 in 1996 and SD 79 in 2012). In both circumstances where these school boards failed to submit a balanced budget, in accordance with the law, the boards were dismissed by the provincial government and replaced with a Trustee.

Section 172(1) of the *School Act* describes various circumstances in which the Lieutenant Governor in Council may decide to dismiss a school board. Sub-paragraph (c) provides in material part as follows:

172(1) The Lieutenant Governor in Council may appoint an official trustee ... if, in the opinion of the Lieutenant Governor in Council,

(c) There is substantial non-compliance with this Act or the regulations or any rules or orders made under this Act,

The Lieutenant Governor in Council relies on the Minister for advice in that regard, and the Minister may in turn rely upon any relevant information, including findings and recommendations from this review.

Submitting a balanced budget is a fundamental requirement of the *School Act*. Arguably, the very act of failing to do so constitutes substantial non-compliance with the Act. In addition, from the facts and circumstances outlined in this report, it is reasonable to conclude that non-compliance here was not technical or accidental, but intentional and deliberately undertaken as a means of protesting the level of funding provided to the Vancouver School District (VSD). This is further evidence that the decision not to submit a balanced budget should be considered "substantial" non-compliance.

However, the terms of reference for this review go beyond the question of non-compliance as a basis for the Lieutenant Governor in Council to consider intervention under section 172(1)(c) of the *School Act*. An equally important goal of this report is to provide an action plan for the Minister of Education through which he may enable the VSB to rectify and strengthen their approach to governance and oversight of the district, as well as to support the planning and decision making necessary to produce balanced budgets.

Additionally, the Minister of Education granted an extension for this review to October 21, 2016 so that the impact of recent decisions made by the Vancouver School Board could be considered and included. The recent decision by the VSB to suspend the school closure consultation process has certainly made the task of achieving a balanced budget in 2017/18 more difficult. It is clear that the financial difficulties faced by the VSB, and the likely impact to classrooms, will be greater. There is now even greater uncertainty in the process moving forward which will require considerable attention in the months ahead.

Further, the situation continues to change and evolve. There have been recent indications in the media that the VSB may be taking steps to pass a balanced budget. However, even if that were to be the case, the underlying issues will remain unresolved. It is clear that the financial difficulties faced by the VSB and the likely impact to classrooms will continue to be a major challenge.

This review includes 28 recommendations regarding governance and finance, as well as a plan for fiscal sustainability for the VSB. A Summary of Recommendations can be found on pages 32-35.

## APPROACH

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### Forensic Audit

The forensic audit of expenses was conducted by a team from EY, under the general direction of Peter Milburn, utilizing industry standard methodology. EY's report, completed independently of this review, is appended.

### Governance Review

The review of governance was conducted by reviewing records of the VSB and conducting interviews with all Trustees, as well as past and present staff of the school district, on a non-attribution basis.

Information was also received from the Ministry of Education, the BC School Trustees Association, the BC School Superintendents Association, and other school districts in the Lower Mainland.

All of the interviews conducted and documents collected were considered to ensure the greatest level of understanding of current policies and practices at the VSB.

Each section in the Governance Review outlines:

- Performance standards
- Discussion of findings
- Conclusions
- Recommendations

Recommendations are based on comparisons with best practices of broader corporate governance and comparable school districts.

### Financial Review

The financial review was conducted by a detailed analysis of the technical work completed by the management of the VSB, in addition to the review team developing new alternate strategies and plans.

## BACKGROUND AND TIMELINE

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In the spring of 2016, the Vancouver School District was working to create a balanced budget for the fiscal year 2016/17 (July 1, 2016 to June 30, 2017). Many meetings were held between senior management of the VSB and the Trustees.

After extensive work, VSB management created a balanced budget proposal that contained \$21.8 million of expense reductions. This included approximately \$5.6 million of reductions that had direct impacts on classrooms.

In an effort to mitigate the reductions required, two Trustees of the Vancouver School Board approached the Minister of Education on May 3, 2016 with a proposal. They asked if the Ministry would consider approving creative options to limit the impact on classrooms, including bridge financing to increase VSB revenue, or other proposals such as potentially selling some interest in real estate owned by the VSB, such as the property at Kingsgate Mall.

In response, Ministry of Education officials explored numerous options with VSB management. The Ministry created a proposal and submitted it to the VSB on June 28, 2016, which was designed to provide the VSB with \$5.6 million of revenue in exchange for the Ministry of Education securing an interest in a commercial development, the Kingsgate Mall. This was intended as a path to alleviate the need for cuts that had a direct impact on classrooms.


At a meeting of the Vancouver School Board on June 29, 2016, the Board rejected the Ministry's proposal, as well as the balanced budget proposal created by VSB management that included \$21.8 million in reductions. No new budget was established for the school year.

Through these actions, the Trustees of the Vancouver School Board failed to submit a balanced budget as required by the *School Act* (Section 111).

However, with no approved budget in place, VSB management were still left to take the actions necessary to attempt to balance the 2016/17 budget. After a thoughtful process, VSB management took steps to implement all of the rejected budget submitted to the Trustees, and the Acting Superintendent has confirmed the intention to take measures to balance the 2016/17 budget.

On July 18, 2016, Minister Mike Bernier announced that Peter Milburn had been appointed as a special advisor (*School Act*, section 171.1) to lead an audit and review of the Vancouver School Board. In this assignment, Mr. Milburn has been supported by EY, the same professional services and audit firm that conducted a review of the VSB in 2015. The audit and review were originally due back to the Ministry of Education by September 30, 2016.





In early October 2016, a number of troubling events occurred, which appear to be connected to some of the concerns identified in this review. As of October 3, 2016, six members of the VSB's senior management team were on leave and away from their jobs. This was preceded by a letter from the President of the BC School Superintendents Association (BCSSA) that included serious allegations of a toxic work environment between VSB Trustees and management. The Ministry of Education referred the complaint to WorkSafeBC, and it has undertaken an investigation pursuant to legislation related to workplace safety.

It is important to note that it is not part of the scope of this review to investigate or make any findings or recommendations related to the allegations brought forth by the President of the BCSSA currently being investigated by WorkSafeBC. Moreover, nothing in this report should be viewed as a comment on those allegations or that process.

However, of particular relevance to this review was the decision on Monday, October 3, 2016 by the VSB to suspend the school closure consultations underway. In a news release posted to their website, the VSB cited the Ministry of Education's decision to remove the 95 per cent capacity utilization target in the Memorandum of Understanding (MOU) signed with the Board in 2014 as the major justification behind suspending the consultation process.

In the release, Board Chair Mike Lombardi stated that "[t]he closure process was working on very tight timelines and the Minister's announcement about the removal of the 95 per cent requirement came too late to allow detailed consideration of the implications prior to the September 26 board meeting to move schools forward for public consultation."

On October 6, 2016, Minister of Education Mike Bernier announced an extension for this review, primarily so that the impact of the decision made by the Vancouver School Board described above could be considered and included.

## 1.0 FORENSIC AUDIT

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### Discussion

As discussed above, EY conducted a forensic audit with an experienced professional team who have completed similar assignments.

Presented below is a summary of the results of the audit completed by EY. For further detail please refer to the appended report from EY.

### Conclusion

Based on EY sample testing of Board expenditures during the Period of Review, all payments tested had sufficient supporting documentation to substantiate the payments and therefore are eligible under VSB policies. The expenses examined, subject to limitations associated with the specific use of cell phones, were incurred in the legitimate operations of the Board of Trustees.

Payments totaling approximately \$5,842 were made for reimbursement of cell phone expenses incurred by the Trustees, but are not included in the Statement of Financial Information (SOFI) reports. Based on discussion with VSB Finance staff, it is our understanding that it was a management decision to exclude cell phone expenses from the SOFI reports as the costs for VSB supplied cell phones are also excluded.

### Recommendations

#### R#1

The VSB develop a policy that allows for a reasonable allocation of costs to the individual trustees for the personal use of phones supplied by the VSD. This is consistent with EY recommendation FA1.

## 2.0 GOVERNANCE

### 2.1 Accountability

#### Performance Standards

In any corporation, the members of the Board of Directors have two primary responsibilities — a fiduciary responsibility and a duty of care which they owe to the corporation.

The fiduciary responsibility expects board members to act honestly and in good faith in the best interests of the corporation, while a duty of care requires that board members exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. These are expectations that should also apply to the VSB Trustees in all aspects of their role.

In particular, being an effective steward of the resources under the control of a board is a primary component of their fiduciary duty. The BC School Trustees Association states the following with regard to this role:

“In British Columbia, boards of education are responsible for public schools (K-12), early learning, and adult literacy. They share these responsibilities as co-governors with the provincial Ministry of Education. Broadly speaking, boards provide district-level policy leadership that enhances student achievement, hire and manage the senior district staff, and ensure the prudent use and control of the district’s resources.”

This is primarily a stewardship-based view of the role. This view is also supported by the *School Act* (Section 111) that in part states:

“Estimated expenditures in the annual budget must not exceed estimated revenues.”

This underlines the importance of being a steward and operating the school district as efficiently and economically as possible in delivering and supporting its educational program. This includes identifying priorities and making the necessary tradeoff decisions to improve the education system no matter how difficult.

#### Discussion

In defining their role, the VSB Trustees appear to hold a variety of different views. Some expressed the view that they are accountable to the public that elected them. Some believe that they are accountable to the Province, and still others mentioned they believe they are accountable to parents, students, teachers and other workers.

### Recommendations

#### R#2

The VSB update and clarify its policies relating to governance to ensure that Trustees are bound to conduct themselves in accordance with their role as stewards rather than advocates.

#### R#3

The VSB publish their updated policies so that future candidates for the office of Trustee are aware of their obligations. These should be reinforced and acknowledged at the commencement of their term as part of their oath of office.

Being an advocate is a very important part of how some Trustees view their role. They believe that if they are successful in pressuring the Province to provide more funding, it will create better opportunities for students. Some trustees stated that the public who voted for them expect them to be advocates in the way noted above. This is consistent with other communication from the VSB, including on its website which prominently features information regarding the role of Trustees as advocates.

Others Trustees spoke about how they believe they are responsible for making tough decisions that may not be popular, but are required for the financial well-being of the school district.

The different approaches between the 'advocacy first' model and the 'stewardship first' model can be explained in the context of the consultation on possible school closures. Where an advocate might ask the question "should we close schools or seek more funding from the Ministry of Education", the steward would likely ask the question "should we close schools or cut other expenses to stay within the budget provided".

There is an inherent conflict in the outlook of an 'advocate' versus a 'steward'. Advocacy is most successful when it can be demonstrated that more funding is required to successfully provide any defined program. On the other hand, stewardship involves the appropriate oversight, planning, and management of the available resources to successfully achieve the entity's strategic goals. However, the more successfully the resources available are managed, the harder it is for advocates to demonstrate that more funding is required.

Nothing illustrates this conflict better than the requirement to pass a balanced budget. Following the law and making the decisions necessary to balance the budget is the essence of stewardship, while refusing to do so in an effort to protest for increased funding levels is the approach of advocacy.

From a political perspective, both advocacy and stewardship enjoy public support in various quarters. However, as those adversely affected by a decision tend to be the only individuals who publicly voice their opinions or attend public meetings, the perceived level of public support for advocacy is often overstated. People adversely affected by a decision are more likely to support advocacy as it does not require tradeoffs.

Those Trustees that think stewardship was their primary responsibility expressed frustration with VSB decisions that they think were motivated by advocacy as opposed to proper stewardship. Of particular concern to those Trustees was the decision not to pass a balanced budget.

## **Conclusion**

The divergent views of the Trustees on their appropriate role creates a material conflict which is at the root of some of the problems at the VSB. Some Trustees are defining their role based on their perception of the job, and their apparent lack of understanding of their fiduciary and stewardship responsibilities, regardless of the role of Trustees as set out or intended, as described above.

This has resulted in the Board of Trustees making decisions to the detriment of the financial well-being of the school district, such as failing to pass a balanced budget, and using that very failure as the basis for arguing that more funding is required.

## 2.2 Relationships and Functionality within the Board

### Performance Standards

Well-functioning boards have respectful relationships and protocols that guide their conduct. These protocols should be reflected in Board policies and include any relevant requirements from regulatory authorities, such as WorkSafeBC and their relatively new requirement regarding bullying.

The Board is ultimately responsible for developing a supportive environment where members can work on issues in a collaborative and respectful environment. These protocols, whether they are written or not, should not only guide the conduct of the Trustees in their work together, but should also guide the appropriate form of interaction with VSB management.

### Discussion

This report reflects a number of learnings gained from interviews with the Trustees, including about the relationships between different members on the VSB. While some of the Trustees stated that there were no relationship problems, others provided clear examples of strained relationship within the Board. This demonstrates an inconsistent level of awareness of relationship issues among board members.

From the interviews, it is clear that a number of relationships between Trustees are strained. More than one Trustee shared stories about concerns raised by fellow Trustees being met with inappropriate comments or responses by other Trustees.

The party system that exists in Vancouver municipal politics may create strong alignment within parties, but that, along with the differences in the Trustees' view of their role, appears to also exacerbate the interpersonal conflicts between some Trustees at the VSB.

### Conclusion

There are examples of school districts in similar jurisdictions where Trustees elected on a party slate successfully carried out their appropriate fiduciary and stewardship responsibilities.

Through discussions with the Board Chair of a similar school district that has seen Trustees elected on party slates successfully put aside political differences to fulfill their fiduciary and stewardship responsibilities, it would appear that the most important determinant of success is the will of the Trustees to work together.

Many boards undertake regular team building exercises including retreats or facilitated sessions to aid in developing relationships conducive to collaboration and teamwork. However, based on the comments of some of the Trustees at the VSB, it would appear that a higher level of intervention is required. Professional facilitation of team building and strategic planning is required.

## Recommendations

*This review adopts EY recommendation OG3 as R#4*

### **R#4 (EY OG3)**

The VSB engage an external professional to assist with team building and conflict resolution in order to reduce the impact of Trustee personality dynamics on both the Board's relationship with management and the effectiveness of the Board as a whole.

### **R#5**

The VSB engage the BC School Trustees Association (BCSTA) to facilitate discussion with other boards of education that have reduced the partisan atmosphere in order to understand, adapt and implement those successful policies and strategies.

## 2.3 Vancouver School Board Hands-On Approach to Governance

### Performance Standards

The most effective corporate boards focus their efforts on the strategic vision, policies, and oversight of the organization. There are many examples of school boards that have very successfully adopted this approach.

The most important starting point for a school board is the development of a vision and strategic plan. The strategic plan should articulate a clear vision, identify issues, set out clear goals, policies, and performance objectives, and outline a process to monitor progress.

The CEO or Superintendent is responsible for the operation of the organization and the achievement of the performance objectives. Well-functioning boards understand this relationship and limit their involvement in the operational aspects of the organization.

### Discussion

#### *Board Involvement in Management's Work*

Currently the VSB is engaged in the development of a new Strategic Plan. This process presents an opportunity to redefine the role of the Board in their approach to governance. According to interviews with some of the Trustees, the previous Strategic Plan developed by the VSB was not a document that effectively guided the district in its policies, goals, or performance criteria.

Moreover, it is clear that the Trustees do not have a unified strategic approach to their interaction with VSB management. Some Trustees indicated that they allow management to conduct technical work independently, while others are more hands-on with management regarding day-to-day operations.

This hands-on approach by some Trustees into the day-to-day operational business of the VSB has been a longstanding concern raised in previous reviews of the VSB, including the Comptroller General's review of 2010. The level of engagement by Trustees into operations at the VSB is uncommon among comparable school districts according to the interviews completed for this review and as evidenced by the number of hours spent on operational items in committee discussions.

Some of the Trustees mentioned that they believe the public expects them to be fully involved in every aspect of the decisions and operations of the school district. Those Trustees stated that the degree of public involvement in the education system is higher in Vancouver, and that therefore the expectations placed on the Trustees are greater.

However, it is worth noting that any difference in the level of public expectations is likely the result of the subcommittee model adopted by the VSB, which includes an unusually high degree of public engagement and hours spent in meetings compared to other jurisdictions. For example, information gathered for this review demonstrated that VSB management spent over half of the weekday evenings in meetings with the Board of Trustees between February 1, 2016 and June 30, 2016. This adds up to 180 hours of evening time.

This level of hands-on engagement also creates additional burdens on VSB management, limiting the effectiveness of the organization. First, when Trustees are too actively involved in the day-to-day operation of the school district, it blurs the lines of accountability for decisions and performance between the Trustees and VSB management. Second, excessive interaction detracts from both the Board of Trustees and the management of the VSB conducting their roles in an efficient and effective manner.

### ***Pressure Created On Senior Management***

In addition to the additional hours and unusual level of engagement, information gathered for this review demonstrated that some Trustees are not always being respectful in their interactions with VSB management during board meetings. Information provided on a not-for-attribution basis in many interviews, including with former staff of the VSB, as well as with the President of the BC School Superintendents Association (BCSSA), there are also strained interactions outside of the Board meetings. The President was particularly concerned about the effect the work environment at the VSB was having on the well-being of current management.

A letter from the President of the BCSSA was sent to the Deputy Minister of Education, outlining many concerns including “ongoing disruption, criticism and in some cases hour by hour direction of their (executive) work, [which] if not done exactly as requested by individual trustees or the Board, may result in reprisals.” As noted earlier, the Deputy Minister responded by making WorkSafeBC aware of the concerns.

Within a letter to WorkSafeBC, the Deputy Minister stated “[i]t is my concern that the behavior of some of the trustees of the Vancouver Board of Education could be perceived to equate to bullying and/or harassment of their employees, which would be an issue over which you have jurisdiction in light of policies established by WorkSafeBC in the past couple of years.”

It is important to note again that it is not part of the scope of this review to investigate or make any findings or recommendations related to these allegations. But for the purposes of this review into governance at the VSB, regardless of what has taken place between Trustees and management, it would be difficult for anyone to be effective in an environment where such allegations are present, whether or not they prove to be true.

It is clear that the Vancouver School District is dealing with very significant issues, and is arguably in a state of crisis.

### **Conclusion**

The Board of Trustees at the VSB is taking an unusual and ineffective approach in the depth and nature of their interaction with the operation of the Vancouver School District. This approach is interfering with management’s ability to effectively run and operate the organization. It is also causing an unsustainable amount of stress on members of VSB management.

This appears to be a completely entrenched approach to running the business of the School District. The recommendations below will only be effective if the Trustees, individually and as a group, have the will to change their approach to business.

### **Recommendations**

#### **R#6**

The VSB update the Strategic Plan to include a clear description of the role of the Board of Trustees as one that focuses on the strategic vision, policies, and general oversight of the organization, and not the management of the day-to-day operations of the Executive, staff and district.

#### **R#7**

The VSB seek assistance from the BCSTA and other urban school districts in setting their Strategic Plan and governance structure.

## 2.4 Vancouver School Board Subcommittee Structure

### Performance Standards

There are a variety of effective structures that successful boards adopt in the execution of their responsibilities. Most school boards have subcommittees that are a subset of the Board that are assigned tasks to work on and bring back to the main table for decisions. One of the main values of subcommittees is that they allow the workload to be spread out among members.

At other school districts the subcommittees are also generally carrying out their work in camera and they report back to the main table in public. This was true for all Metro Vancouver school districts interviewed.

### Discussion

Most urban school districts have between one and three subcommittees, whereas the VSB has five subcommittees:

- Management Coordinating (Committee I)
- Planning & Facilities (Committee II)
- Education & Student Services (Committee III)
- Personnel & Staff Services (Committee IV)
- Finance & Legal (Committee V)

VSB subcommittees are also structured in a manner where committee members and external stakeholders, including union representatives, are seated around one table. The meetings do include the presentation of information by management, however, the majority of the time at subcommittee meetings is spent receiving stakeholder input. This has the effect of confusing the respective functions of the subcommittee members. Whereas Trustees are there to gather information and report back to the Board with a recommendation, stakeholders in attendance are there to provide input and represent the interests of their groups or associations.

Feedback from Trustees on the effectiveness of this model varies. Some Trustees support the model and see it as effective, while others do not. Trustees that reported concerns stated that the information received at subcommittee meetings is not representative of the public at large, is often repetitive, and at times appears heavily scripted to support entrenched views of various Trustees to help them in their advocacy.

This is in stark contrast to other urban school districts, which more often delegate the public consultation process to management and receive a consultation summary report for the vast majority of issues.

## Recommendations

### R#8

The VSB implement better practices and procedures for Standing Committee and Board meetings to enable an oversight structure that functions effectively and efficiently, including:

- Developing practices and policies to streamline attendance guidelines and receipt of input from persons who are not members of that committee, including stakeholder representatives and other Trustees.
- An analysis of stakeholder representation to evaluate the effectiveness of these groups in both representing the community at large and providing equal representation at meetings.

### R#9

Consistent with best practices at other School Districts, the VSB designate committee meetings as in camera in an effort to depoliticize discussions and allow Trustees to focus on providing effective oversight.

### R#10

The VSB delegate stakeholder consultation to VSB management with the results presented to Trustees at relevant Committee meetings.



## Conclusion

Previous reviews of the VSB have recommended changes to the subcommittee structure, including collapsing two of the committees. However, the main issue in this case is the time-consuming nature of the exercise and the limited value that many Trustees are receiving from the process.

These issues are further exacerbated by the advocacy objectives of some members of the Board of Trustees, where subcommittee work is dominated by Trustees' efforts to advocate for political agendas instead of helping collect important information to support VSB decisions.

## Recommendations

### **R#11**

The VSB comply with s72 of the *School Act* and take minutes of all proceedings of the Board, regardless of the nature of the meeting. This is consistent with EY recommendation OG5.

*This review adopts EY recommendation OG6 as R#12*

### **R#12 (EY OG6)**

The VSB reconsider the cost and benefits of being a member in the BC School Trustees Association, particularly in the context of the recommendations contained in this report and the guidance that the BCSTA provides in many of the relevant areas.

### **R#13**

The VSB implement a question and answer period at public Board meetings to hear from stakeholders.

## 2.5 Independent Decision Making

### Performance Standards

Given the duty of care obligation that is expected of board members, each Trustee should exhibit an independent, thoughtful, and diligent decision making process free from bias. This includes reviewing and considering all relevant material, along with other valid considerations and input, to come to reasonable decisions.

It is the view of EY that the requirement for independence is supported in both the *School Act* and the Oath of Office for the VSB. Of particular importance to good governance is the requirement that decision making is free from outside influences, including political considerations.

### Discussion

All Trustees stated that they approach decision making with an open mind, despite the fact that some recognize that block voting often occurs. The political nature of the Board is apparent in an analysis of vote records. In a sample taken by EY in the appended report, party members voted together over 95 per cent of the time.

Other evidence collected for this review also includes correspondence between Trustees indicating how they are going to vote prior to a board meetings, including a request to vote as a group prior to meetings. This was one clear example of political influence undermining, or potentially undermining, a Trustee's fiduciary duty to exercise independent judgment in decision-making. At the very least this has a detrimental effect on the potential for Board discussions to be open and free from political influence. That influence appears to be internal to Board membership, with no evidence of influence from outside the Board.

An important aspect of independent decision making is the expectation that Trustees will independently review material presented by management and share different points of view to eventually reach a reasoned decision. As mentioned by EY in their appended report, the material prepared by School District management in the case studies analyzed is factual, impartial and of high quality. All Trustees interviewed agreed that the information provided by management to the Board was high quality and worthy of serious consideration.

However, it is clear from the evidence collected and presented in interviews that Trustees of the VSB are not seriously considering the opinions of their fellow members.

### Conclusion

As supported by EY analysis, there is a real concern that political alignments and considerations are detracting from the independence of decision making at the VSB. Two case studies conducted for this review by EY (Long Range Facilities Plan, Budget) demonstrated that information provided by management was not appropriately considered in the decision making process by the Board of Trustees.

## Recommendations

*Please see recommendation R#5 on page 10.*

The VSB engage the BC School Trustees Association (BCSTA) to facilitate discussion with other boards of education that have reduced the partisan atmosphere in order to understand, adapt and implement those successful policies and strategies.

## 2.6 Skills

### Performance Standards

As Trustees that sit on School Boards are elected by the public, they are not generally selected for prior skill or experience running an organization as much as they are for their election policy platforms or popularity. This makes the task of providing effective oversight, setting policy, and the provision of strategic direction for a large and complex organization more challenging.

Some school districts recognize this issue and conduct a skills inventory of the composition of their board. After the inventory is complete, a strategy is usually developed to fill any subject matter gaps. This is an effective way to determine what skills are present or lacking, and a fundamental step towards developing a strategy to ensure that a board has access to the skills necessary to effectively perform their role.

Appropriate strategies include supporting Trustees with a combination of skills training, expert advice, and in particular, support in relation to financial matters.

### Discussion

The current Trustees at the VSB come from a variety of backgrounds and professions. The overall composition of the skills and experience of the current VSB is similar or superior to other Boards of Trustees in other school districts. There does appear to be a problem in the way the VSB makes use of the skills and experience of its Trustees to maximize their value.

Generally speaking, professional board members would not give direct legal or accounting opinions; however, they would assist the Board in asking the right questions and ensuring relevant information is presented for making a decision.

In other respects, Trustees interviewed tended to be divided along political lines in how they weigh the opinions of the professional members of the Board. Generally speaking, Trustees that are members of other boards or professional associations (i.e. nurses, lawyers, accountants, engineers) are held to a higher standard of care when it comes to issues where they may be considered subject matter experts. If the input and advice of Trustees with professional designations is not properly considered, it can create difficult situations for those Trustees within their professions.

A key aspect of the role of the Board of Trustees is to review, consider, and validate information put before them by management. This is particularly important in the area of finances. Many school districts have adopted an audit committee that engages outside experts as required to support them in this subject area.

## Recommendations

### R#14


The VSB create an Audit Committee, including in the membership of the committee external experts to provide recommendations on various strategies, financial situations, risk management scenarios, and other complex issues.

*This review adopts EY recommendation OG7 as R#15*

### R#15 (EY OG7)

The VSB develop and implement a framework specifying the collective knowledge, skills and experience required to fulfill its responsibilities, and a corresponding process to assess the collective skills of the Board in order to:

- Identify specific needs for the upcoming term's orientation program.
- Support the development of training and development plans for individual Trustees.
- Identify the need for external advisors and expertise based on skills gaps.
- Leverage resources and precedents from the BC School Trustees Association.



Although the VSB does have a finance committee, most of the Trustees do not have a background in financial management, nor have they sought significant professional development in that regard.

In their report, EY made note of a significant financial error that could have been identified and resolved by the Board of Trustees in their oversight role, if it was properly constituted. In this case it involved the discovery of a \$1 million error for the fiscal year 2015/16, which is outlined in their appended report. This lends support for the suggestion that an Audit Committee would help the VSB.

### **Conclusion**

It is clear that the VSB has not made a serious effort to identify the skills and experiences of its members in order to understand and compensate for potential knowledge gaps. As a consequence, the Board has not set out any strategy to utilize training or external experts to fill any skills gaps.

This ultimately damages the ability of the VSB to properly carry out its duties, and should be rectified with the recommendations above.

## 2.7 Performance Measurement

### Performance Standards

The VSB's new Strategic Plan should include measurable goals and performance objectives for both the organization as a whole and the Board of Trustees. Best practices would dictate that these goals should be clear, specific, measurable, attainable, relevant, and have timeframes set out for their achievement.

These objectives would form a performance plan which would be the foundation for a performance review of the Superintendent. The plan would also be monitored and reviewed three to four times a year.

### Discussion

It is troubling that there is very little performance measurement done in the top levels of the Vancouver School District.

### *Organizational Performance Measurements*

As identified in the appended EY report, some performance information is collected in the form of financial information and specific utilization information previously required by the Ministry of Education by legislation, no performance measurement exists with respect to the effectiveness and efficiency of the VSB in meeting operational or performance expectations.

### *Board Performance Evaluations*

There is no evidence that the Trustees of the VSB have ever conducted an evaluation of their own performance.

### *Superintendent Performance Evaluation*

After a careful study of the past seven years, this review has only been able to obtain one performance review of a Superintendent (2011), which appears to have been a self-evaluation.

The current Superintendent has not received any performance expectations or reviews in the 18 months he has been on the job, despite the fact that his contract requires a performance review to be completed after one year. It appears the Board does plan to conduct a performance evaluation on the Superintendent in the early part of 2017, which would be almost two years after starting in the role.

Through the interviews, all Trustees acknowledged that it was important to have a good plan for performance management. When asked about the lack of performance evaluation for the Superintendent, most Trustees said that the Board was too busy to complete this important part of the job. As noted earlier in this review, as compared to other school districts, this lack of time could be explained by the unusual number of hours spent in subcommittee at the VSB.

## Recommendations

### **R#16**

The VSB include in its Strategic Plan a framework and process enabling the District to set objectives, establish performance expectations, create metrics, and measure and report on employee performance. This framework should link to objectives in the Strategic Plan and be an active tool for both Vancouver School District management and the Board. *This process should be conducted regularly and at least once per year.*

### **R#17**

The VSB develop a performance management process for the Board of Trustees that:

- contains clearly defined criteria relating to the Board's stewardship role and a self-assessment process to measure the performance of the Board in achieving its objectives and effectively providing oversight;
- aligns with the planning and reporting cycle of the district's overall performance measurement framework;
- includes evaluation by Trustees, stakeholders, and management; and
- is reviewed annually.

As already noted, with the Board currently working on a new Strategic Plan, there is an important opportunity to set out the basic ways the organization will measure policy development and other criteria for success, including an effective performance management framework.

## Conclusion

In reviewing other similar school districts, it is clear that the Vancouver School Board does not place nearly the same amount of emphasis on performance measurement for the organization and staff as other districts do. Some other school districts conduct performance reviews up to four times per year. In terms of proper stewardship, this is one of the most important functions that any board can fulfill. Without setting clear expectations and providing feedback, it is difficult for management to work independently on the Board's strategic priorities and develop plans that reflect the appropriate balance between competing objectives.

While it is positive that some Trustees have reported that they intend to conduct a performance evaluation of the Superintendent in 2017, it is also essential for healthy and effective governance for the Board to conduct regular reviews of its own performance. Best practices for any board include regular monitoring of their performance and effectiveness. Most leading reviews are a form of 360 review giving an opportunity for open communication and improvement to occur. Open feedback allows management, stakeholders, and fellow Trustees to provide both positive and negative comments in a safe environment.

It is encouraging that the acting Superintendent has stated that he will be developing a proposal for reporting and evaluating performance with respect to Board priorities and initiatives through quarterly reports. This proposal would go through the Board approval process.

The BCSTA website has the following information concerning the importance of Boards reviewing their own performance:

“The basic purpose of regular school board self-review is to improve student achievement through more effective school board governance. Organizations and individuals need feedback in order to learn, change and grow.”

It is likely that many of the relationship issues within the Board, including any pressures created on management, could have been identified and rectified earlier if the Board had conducted a form of evaluation or self-evaluation.

Again, this conclusion should be considered independently of the investigated being conducted by WorkSafeBC.

## Recommendations

### R#18

The VSB create a performance management framework for the Superintendent, that:

- has clearly articulated and appropriate timelines for achievement;
- is developed collaboratively between the Board and Superintendent to promote transparency and open, two-way communication; and
- is reviewed two to four times per year.

## 3.0 FINANCIAL REVIEW

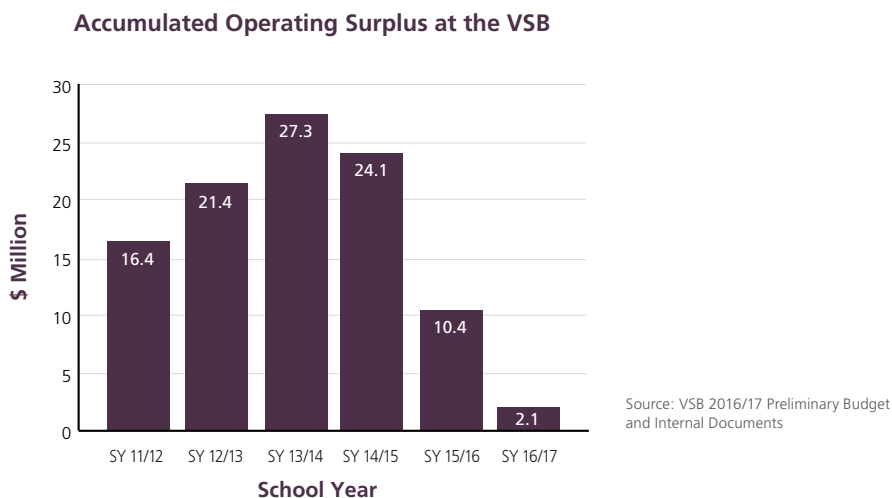
### 3.1 Financial Situation

The VSB has been under significant fiscal pressure for the last three years. In the last three fiscals, expenses have exceeded or will exceed revenues. To create a balance on their income statement, the District has relied on drawing down the operating surplus from previous years. Unlike most corporations, this unique tactic is permitted for school districts. To be clear, this is akin to running down savings account to pay for day-to-day expenses; it is not a sustainable way to achieve budgetary balance.

At the highest point (2013/14), the operating surplus stood at over \$27.3 million. However, it is projected that at the end of this fiscal year (2016/17) that surplus will be down to about \$2.1 million (adjusted from \$1.1 million by EY on the discovery of an error). As such, it will not be possible for the VSB to balance the 2017/18 budget by drawing on past surpluses.

In the current year (2016/17), the expenses of the school district were forecast to exceed revenue by about \$28.6 million. As a result, VSB management created a plan to balance the 2016/17 budget. That plan was rational, well thought out, and appeared achievable. It included \$21.8 million of targeted reductions, of which about 60% were sustainable savings available for each future fiscal plan.

This plan reduced the deficit to \$6.8 million, which would again be reduced to zero by drawing down the accumulated surplus from previous years. In addition, there was a net transfer of \$1.4 million accumulated surplus to other capital accounts which reduced the surplus to \$2.1 million.



The \$21.8 million savings plan for 2016/17 can be broken down into four categories to reflect the degree of direct impact that each initiative would have on classroom instruction. The greatest direct impact occurs at level 4:

- Level 1: Limited direct impact on students (\$8.2 million)
- Level 2: Some impact on students (\$8.0 million)
- Level 3: Impacts large number of students (\$2.6 million)
- Level 4: Severe impacts on teaching and learning (\$3.0 million)

The majority of the identified savings will therefore not have a direct impact on the classroom. A detailed analysis of each level identified above can be found in the appended EY report.

## 3.2 Constraints and Issues for the Vancouver School Board

For any entity to sustainably manage their finances, whether it be a large corporation, small business, or a family, revenues must exceed expenses. There have been a number of missed opportunities to both reduce expenses and increase revenue at the VSB, which will be explored below.

### Expenses

The structure of the VSB budget is generally made up of the following:

- Instruction (\$417 million in 2016/17)
- Building operations and maintenance (\$66 million in 2016/17)
- District administration (\$13.3 million in 2016/17)
- Transportation and other (\$5.7 million in 2016/17)

This review closely compared the budget process in Vancouver with other school districts in an effort to understand why the VSB might have more difficulty balancing its budget than other school boards. It is clear that two of the biggest factors that distinguish the Vancouver School District from other school districts are their collective agreements and excess facility space.

### Collective Agreements

The total number of full-time equivalent positions (FTEs) in the district is 5,330, which represents approximately 92 per cent of the district's operating budget. Collective agreements across the school district are therefore of significant importance to this review.

Aside from the agreement with the teachers' union there are 13 other independent collective agreements. No other school district in the Province faces this level of complexity or constraint.

There are also a number of features of the collective agreements at the Vancouver School District that drive up costs:

- Staffing levels that are based on a square footage calculation
- Minimum staffing levels that must be maintained whether the staff are required or not
- Language in agreements that restrict union members from doing the job of another union member, resulting in additional call out, duplication, and idle time

In 2015, the VSB commissioned a study which compared their staffing levels with other comparable districts including Surrey, Central Okanagan, Coquitlam and Burnaby. Details of the comparison are included in the body of the appended EY report. Using the information from that study, EY estimates the cost of inefficient and redundant constraints in the VSB's collective agreements to be \$24.7 million per year.

Even after including the budget reductions from this fiscal year identified above, and if all 11 of the schools that were proposed for closure were closed, there would still be \$12.8 million in spending on inefficient or redundant staffing practices.



It is clear that the Vancouver School District is an anomalous situation in terms of collective agreements compared to similar school districts. The language that is within some collective agreements was negotiated during the 1990s and has not been changed since. Most recently, the collective agreements were renegotiated in 2014 and will expire in 2019. If solutions that have less impact on classrooms cannot be made within the current agreements, the agreements can and should be modernized at the next opportunity.

### ***Facility Space***

The issue of excess school space has been identified in previous reviews of the VSB. It is a significant issue because excess space has a direct impact on the costs of maintenance, which in turn is particularly important for the structure of the collective agreements in the district.

Relative to other comparable school districts like Central Okanagan, Surrey, Burnaby, and Coquitlam, Vancouver has a surplus of 37.82 square feet per student. This represents about 30 per cent more space per student than other districts. While there have been management reports in the past that have identified this issue for the Trustees, no action has been taken to reduce space that is straining the fiscal situation today.

In 2010, VSB management produced a proposal for the Board to reduce inefficient space. The proposal was initially drafted to close ten schools with low utilization, however, the final number presented was revised to five closures. The savings flowing from the revised plan would have generated approximately \$1.9 million of financial room per year, but even this modest proposal was rejected by the VSB.

In the past six years, the saving from the 2010 revised space reduction proposal would have produced an additional \$11.5 million of savings. If district expenditures had remained steady over those years, these savings would have gone into the accumulated surplus and would be available for operating expenditures this year or in the future.

This case study outlined by EY in the report attached emphasizes the importance of making timely decisions to improve the efficiency at the VSB. In this case the longer it takes to act, the greater the negative impact.

### **Revenue**

VSB Trustees made a number of decisions which have limited the VSB's ability to increase revenue. Key examples include the following:

- The VSB turned down a "Fuel Your School" grant program from Chevron that would have seen \$1 donated to the School Board for every 30 liters of gas bought at local stations, representing up to \$565,000 per year.
- The VSB partially turned down a proposal to institute pay parking for teachers which would have generated an additional amount between \$100,000 to \$1.3 million per year.
- The VSB restricted management from having the option of selling surplus property which could have generated millions of dollars.
- The VSB instituted restrictive policies that impeded management from developing proposals which would see unutilized properties leased at market rates, costing millions of dollars of revenue per year.
- The Vancouver School Board rejected a real estate business proposal from the Provincial Government to sell the Kingsgate Mall lands, which would have secured \$5.6 million.

## Summary

In summary, because of retaining excess facility space, complex and inefficient labour agreements, and restrictions on measures to raise revenue, VSB management have been left with very few options to present to the Board to achieve a balanced budget.

Over the past three fiscal years the VSB has had expenses that exceed their revenues. Drawing down the accumulated surplus has been the only way for the VSB to balance their budget, and by the end of this year the accumulated surplus will be virtually exhausted.

As early as 2010, the Comptroller General advised the VSB to take action to control expenditures. While there has been ample opportunity for the Board to take constructive action, inaction over the past six years has highly constrained the ability of VSB management to produce a balanced budget.

The development of this year's savings plan was significantly constrained by the language of the collective agreements at the VSB. Instead of management putting forward a plan with the most efficient or effective use of funds to avoid reducing classroom resources, VSB management were forced to look for savings in collective agreements that permitted reduction of staff. As an example, reductions were made in teachers instead of outside workers, such as CUPE407, because their collective agreement permitted reductions.

### 3.3 Path to Sustainable Balance

The key principle for fiscal sustainability is clear — revenues need to exceed expenses.

Estimates for the next fiscal year (2017/18) show that there will be a \$14.9 million gap between expenses and revenue.

With only \$2.1 million of accumulated surplus to draw on, new savings or revenues will need to be found for the VSB to balance their budget.

#### Step 1 - Reduce Expenses

##### A) Facility Plan

###### Discussion

The VSB had developed a proposal to close 11 schools that were surplus to the needs of the district based on predicted enrollment. The rationale and approach developed by VSB management was reasonable and thoughtful. It took into account nine factors and two filters, the details of which are outlined in the appended EY report.

On October 3, 2016, VSB Trustees made the decision to suspend the school closure process identified above. This decision was made on the recommendation of the new VSB management team. In a news release posted to their website, the VSB cited the Ministry of Education's decision to remove the 95 per cent capacity utilization target in the Memorandum of Understanding (MOU) signed with the Board in 2014 as the major justification behind suspending the consultation process. It was also suggested by VSB management that the lack of resources available for consultation was a factor.

The process moving forward with reference to the facilities plan is now unclear and will require considerable attention in the months ahead. The financial impacts of the decision to suspend the school closure process are very significant for the VSB's fiscal plan:

- Direct costs for staff and facility maintenance - \$4.7 million to \$6.2 million per year\*
- Deferred maintenance for the 11 schools remaining open - \$54 million\*
- Seismic mitigation for the 11 schools remaining open - \$106 million to \$184 million\*

*\*These estimates supplied by the appended EY report*

#### Recommendations

##### R#19

The VSB immediately update the Long Range Facilities Plan (LRFP) to reduce facility costs and align the space requirements per pupil with other comparable school districts.

##### R#20

The VSB immediately conduct an assessment of the other measures that are available to replace the lost income and foregone savings associated with the closure of the 11 schools.

Perhaps the most important aspect of the facility plan is the enrollment projections. Enrollment in the Vancouver School District is predicted to be almost flat for the next 15 years. For many months, VSB management conducted an extensive analysis of the various methods of population prediction. It is an issue that requires a large commitment of staff time and resources as enrollment numbers are often a target of criticism by individuals or organizations in the community.

After VSB management extensively reviewed the available methods for enrollment prediction, the Baragar system was selected. Baragar is a BC-based firm that specializes in providing enrolment projections for BC school districts. The Baragar method considers various aspects of population information including migration, birthrates, and family statistics, which has proven to be more accurate than other enrollment projections.

Closing the 11 schools proposed by the VSB would have provided \$4.7 million savings in the first year and climbed to \$6.2 million after a few years. In addition, much of this space would have become available to be utilized as "swing space" so that the seismic mitigation program could proceed in the school district.

Although overall growth is projected to remain flat, there are certain catchment areas of the Vancouver School District that are expected to experience significant population growth over the next 15 years, which will also require additional space. Therefore, even if the 11 schools that were being considered for closure were closed, the school district would still require a second phase of closures to be conducted at a later date to reduce operating costs in the areas of falling enrollment.

## **Conclusion**

The rationale developed by VSB management was both reasonable and thoughtful. The need to close schools is largely related to declining enrollment, and the use of the Baragar enrollment system to support that decision was prudent and logical.

In the absence of the school closures, the financial difficulties and the likely impact to classrooms will be greater. In fact, as indicated by EY, well over half (\$8.6 million) of the \$14.9 million gap in 2017/18 could have been filled through the closure of the schools to avoid cuts in other areas.

Very recently the acting Superintendent has indicated that he will be developing a proposal for the revised LRFP which would potentially utilize an external resource in a senior leadership role. This proposal would have to go through the Board approval process.

## **B) Collective Agreements**

### **Discussion**

Please refer to the discussion of collective agreements in the Expense section on page 21.

### **Conclusion**

The previously identified report on comparative staffing levels indicated that, in comparison to its peers, Vancouver School District is significantly overstaffed in many employment categories.

The VSB should take appropriate measures to reduce its labour costs to those of its peers, with the net annual savings estimated to be \$12.8 million if the 11 schools previously up for closure were closed. This number was developed assuming the 11 schools undergoing consultation would be closed. In the absence of those school closures, the net annual inefficiencies of labour costs at the VSB are estimated to be at \$17.7 million per year. Revenues will need to be found for the VSB to balance its budget.

## **Recommendations**

### **R#21**

The VSB immediately commence a review of its 14 collective agreements and develop a strategy to reduce them in number and modernize the language contained within them to limit or eliminate unnecessary inefficiencies resulting in high costs to the district.

### **R#22**

The VSB immediately engage with the Public Sector Employers Council (PSEC) and the affected unions to identify opportunities for better service alignment and to develop options, well in advance of the commencement of the collective bargaining process, that will begin prior to the expiry of the existing collective agreements beginning in 2019.

## Step 2 - Increase Revenue

### C) Service Agreements

#### Discussion

Provisions in the CUPE 407 collective agreement requires the Vancouver School District to maintain a minimum of 101 staff members. Through discussions with VSB management and an analysis of the work requirements, it is clear that not all of the 101 employees are required throughout the year.

It is estimated by EY, working with the VSB management team, that there is a surplus of 30 employees for half of the year. Since restrictions within the collective agreements will not allow seasonal layoffs it would benefit everyone if those individuals were reassigned to work on cost recovery projects for other agencies.

#### Conclusion

Because the VSB has additional resources and expenses they cannot reduce when those resources are not required, the best approach is to receive income from those resources.

This will require cooperation and creativity on all sides, including relevant unions and potential agencies that would receive the services. The approach envisioned would respect the collective agreements, but look for opportunities to recover income for the school district. This discussion can be conducted in a manner where there is benefit to all parties, including opportunities for the employees involved. This initiative is estimated by EY to generate \$870,000 per annum.

## Recommendations

### R#23

The VSB immediately explore, in partnership with relevant unions, the opportunity to develop service agreements with other government or non-government agencies to better use underutilized staff.

### R#24

In the event that underutilized staff can be put to work at other agencies or organizations, the VSB work together with the unions to approach the marketplace and secure service agreements or contracts that will maximize the financial recoveries back to the School District to support the fiscal plan.

## **D) Real Estate Initiatives**

### **Discussion**

In the details of the attached report by EY, there are a number of suggestions for generating income through better real estate management. Their report concentrates on four areas of opportunity (vacant school lands, non-school properties, surplus school lands, and Kingsgate Mall). This review divides the discussion into two topics D) Real Estate Initiatives (Vacant School Properties, Non-School Properties, and Surplus School Lands) and E) Kingsgate Mall.

The EY report appended has found that the overall VSB approach to maximizing revenue from surplus assets is ad hoc in nature, and lacking focus or structure from a higher-level strategic vision. The VSB has at times secured expert real estate advice to support decision making, but they often made decisions that did not capitalize on the full market value of the properties.

In the appended report, with the assistance of VSB management, EY has identified additional lease revenue opportunities. Their report includes a detailed listing of each lease revenue opportunity, the source of the information, and assumptions that have been used.

The EY report also included an analysis of the 11 schools that were proposed to be closed, subject to consultation. These schools were estimated to produce \$3.9 million in the first year. The vacant school properties and non-school properties are estimated to produce an additional \$2.5 million per year.

### **Conclusion**

The VSB has the potential to raise substantial income from their portfolio of properties. However, as mentioned, the Board has made decisions that limit the value they can obtain, including rules for the sale of school assets and restrictions leading to leasing properties below market rates. The decision not to close schools will reduce revenue by a projected \$3.9 million in 2017/18. It remains unclear at this point if and when schools will be closed by the VSB, so we cannot make future revenue projections. Regardless, the management of the property portfolio could benefit from engaging a qualified real estate development professional to provide strategic advice to maximize revenue to the VSB.

## **Recommendations**

### **R#25**

The VSB conduct a strategic review of the real estate assets by a qualified professional regarding (i) the existing market value of the surplus lands (by way of sale or lease); and (ii) the closed and pending closed school annexes, proposed school closure associated with the LRFP, and non-school assets. This is consistent with EY recommendation BR15.

### **R#26**

The VSB retain real estate professionals to assess the market rental potential and highest and best use of each of the school facilities proposed for closure in the LRFP, and adopt those recommendations that result in the best financial outcome. This is consistent with EY recommendation BR16.

## ***E) Kingsgate Mall***

### **Discussion**

As mentioned above, in late spring of 2016 the Ministry of Education and the Vancouver School District were working together on a proposal to transfer an interest in the Kingsgate Mall to the province in exchange for \$5.6 million of one-time revenue to the school district.

The deal was complicated by the fact that the existing tenant at Kingsgate Mall has the right of first refusal on the property, and the discussion between the province and the VSB was taking place very close to the June 30 budget deadline. Ultimately, the VSB turned down the proposal largely because it only provided one time revenue in the current year with an unclear path to future financial sustainability. As outlined in the appended EY report, the Kingsgate Mall has significant development potential and ability to provide income to the school district. The sale of the property, in whole or in part, would be able to produce in excess of \$50 million.

It is also important to note that unlike the vast majority of school properties, and due to the unclear history of the property, the proceeds from any sale of Kingsgate Mall, in whole or in part, could have been applied as revenue in the fiscal year. The Ministry of Education has confirmed this finding, which was subsequently affirmed by officials at the school district.

Due to the commercial and confidential information regarding Kingsgate Mall, a separate report and advice on the topic has been prepared by EY for the Minister of Education.

### **Conclusion**

This real estate transaction represents the largest immediate opportunity to set a new path for fiscal sustainability in the district and is an important component of the 2017/18 fiscal plan. This can be structured in a manner that could form a revenue stream to greatly assist in resolving the ongoing budgetary issues.

## **Recommendations**

### **R#27**

The VSB work with the Province to develop viable options for achieving early value (revenue) from the transfer of a partial interest in the Kingsgate Mall to the Province.



### Step 3 - Develop a Long-Term Fiscal Plan

#### Discussion

The VSB has struggled over the last number of years to prepare a balanced budget. There have been unsustainable, one-time solutions employed to fill gaps in many fiscal years. Despite missed opportunities by the Board to take action on key issues as outlined above, there remains an opportunity to create a path toward fiscal sustainability.

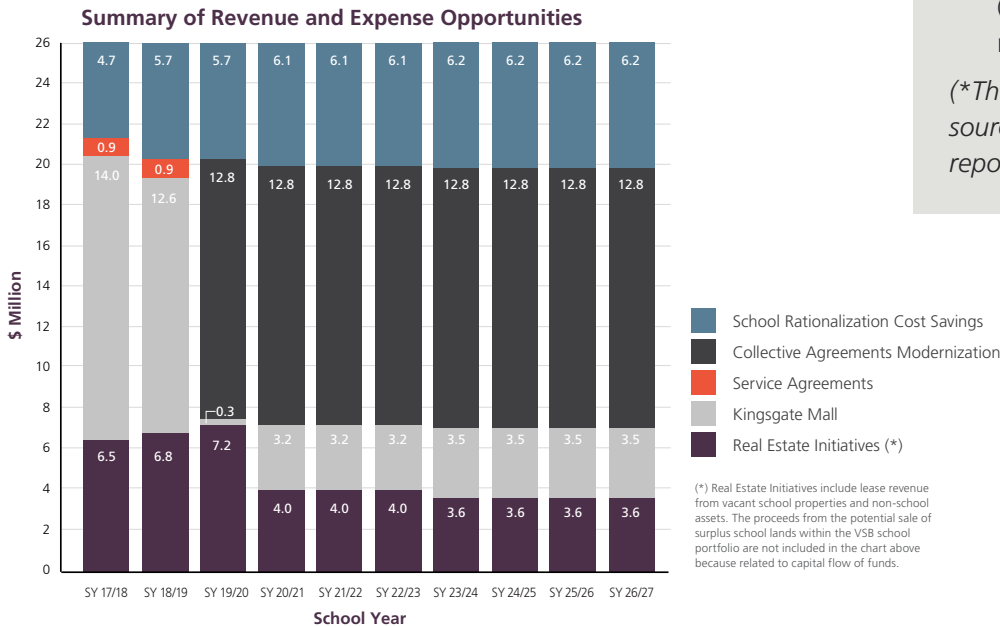
The first step to fiscal sustainability is to embrace the principles of stewardship that start with a need to produce a balance budget. A 10-year plan should be created to support that goal, and it should consider both revenue and expenses over the period.

The gap in the 2017/18 fiscal plan is estimated at \$14.9 million. Prior to the decision not to close schools, the five measures listed below could have produced an additional \$26 million of fiscal room per year, or \$260 million over the course of a 10-year plan.

This would have filled the \$14.9 million gap for 2017/18 and provided up to \$11 million of additional fiscal room that could have potentially reversed the \$5.7 million in level three and four cuts required this year to balance the budget.

#### Before End of School Closure Process

The graphic below illustrates how these measures could have been put in place to supply more than enough income to eliminate the \$14.9 million gap and allow the option of investigating the reversal of the level 3 and 4 cuts made this year.



### Recommendations

**R#28**  
The VSB develop a three-year fiscal plan with a 10-year outlook, and update the plan on an annual basis.

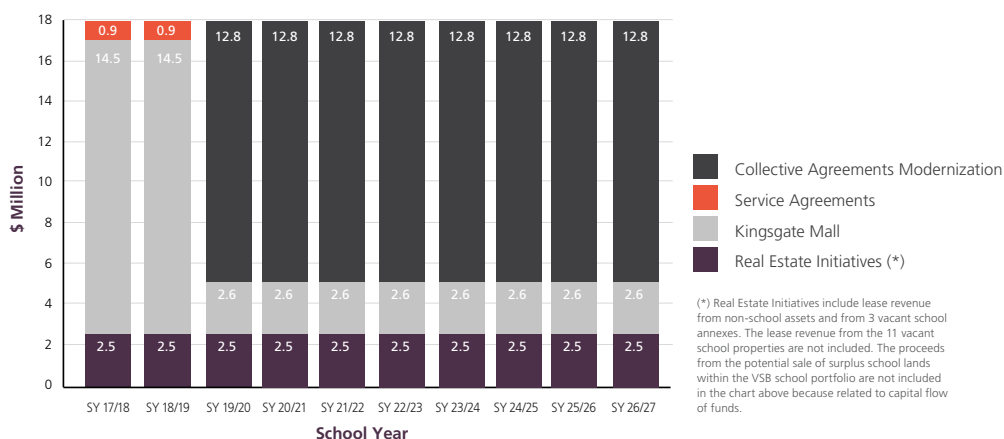
#### Before End of School Closure Process

- A. Facility Plan** – \$4.7 million to \$6.2 million per year starting in 2017/18
- B. Collective Agreement Modernization** – \$12.8 million per year starting in 2019/20
- C. Service Agreements** – \$900,000 starting in 2017/18
- D. Real Estate Initiatives** – \$5.2 Million majority starting in 2021/22
- E. Kingsgate Mall** – \$50 million starting in 2017/18 (able to spread out as required)

(\*These figures are directly sourced from the appended EY report)

## After End of School Closure Process

Summary of Revenue and Expense Opportunities



## Conclusion

There has been a manifest lack of fiscal planning for several years, with each year looked at independently, employing unsustainable solutions to achieve balance.

The first analysis above was completed anticipating that the 11 schools undergoing consultation would be closed. The graphics illustrate how using the analysis of EY as a foundation and applying it to the five opportunities outline above, the VSB would have had the opportunity to provide a sustainable financial outlook for the future years. For next year the balance is dependent on obtaining income from the Kingsgate Mall.

In the second analysis the savings and revenue associated from the school closures has been removed. There is still an opportunity to create a sustainable income stream. However the stream is at the level of \$18 million as opposed to \$26 million. Again in this scenario the income from the Kingsgate Mall is necessary to achieve a balance in 2017/18.

Each of these scenarios are illustrative, and meant to demonstrate that there are opportunities that exist for the VSB to improve their financial position through strategic planning, and not through cuts in educational programming.

However, the success of this approach is highly dependent on the decisions and actions of the Board of Trustees of the VSB. It is imperative that they follow the recommendations set out within this report as they work in concert to produce more effective governance, oversight and financial results.

## After End of School Closure Process

- A. Facility Plan** – \$0 per year starting in 2017/18
- B. Collective Agreement Modernization** – \$12.8 Million per year starting in 2019/20
- C. Service Agreements** – \$900,000 starting in 2017/18
- D. Real Estate Initiatives** – \$2.5 million starting in 2017/18
- E. Kingsgate Mall** – \$50 million starting in 2017/18 (able to spread out as required)

## 4.0 SUMMARY OF RECOMMENDATIONS

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### R#1

The VSB develop a policy that allows for a reasonable allocation of costs to the individual trustees for the personal use of phones supplied by the VSD. This is consistent with EY recommendation FA1.

### R#2

The VSB update and clarify its policies relating to governance to ensure that Trustees are bound to conduct themselves in accordance with their role as stewards rather than advocates.

### R#3

The VSB publish their updated policies so that future candidates for the office of Trustee are aware of their obligations. These should be reinforced and acknowledged at the commencement of their term as part of their oath of office.

### R#4 (EY OG3)

The VSB engage an external professional to assist with team building and conflict resolution in order to reduce the impact of Trustee personality dynamics on both the Board's relationship with management and the effectiveness of the Board as a whole.

### R#5

The VSB engage the BC School Trustees Association (BCSTA) to facilitate discussion with other boards of education that have reduced the partisan atmosphere in order to understand, adapt and implement those successful policies and strategies.

### R#6

The VSB update the Strategic Plan to include a clear description of the role of the Board of Trustees as one that focuses on the strategic vision, policies, and general oversight of the organization, and not the management of the day-to-day operations of the Executive, staff and district.

### R#7

The VSB seek assistance from the BCSTA and other urban school districts in setting their Strategic Plan and governance structure.

### R#8

The VSB implement better practices and procedures for Standing Committee and Board meetings to enable an oversight structure that functions effectively and efficiently, including:

- Developing practices and policies to streamline attendance guidelines and receipt of input from persons who are not members of that committee, including stakeholder representatives and other Trustees.
- An analysis of stakeholder representation to evaluate the effectiveness of these groups in both representing the community at large and providing equal representation at meetings.

### R#9

Consistent with best practices at other School Districts, the VSB designate committee meetings as in camera in an effort to depoliticize discussions and allow Trustees to focus on providing effective oversight.

#### R#10

The VSB delegate stakeholder consultation to VSB management with the results presented to Trustees at relevant Committee meetings.

#### R#11

The VSB comply with s72 of the *School Act* and take minutes of all proceedings of the Board, regardless of the nature of the meeting. This is consistent with EY recommendation OG5.

#### R#12 (EY OG6)

The VSB reconsider the cost and benefits of being a member in the BC School Trustees Association, particularly in the context of the recommendations contained in this report and the guidance that the BCSTA provides in many of the relevant areas.

#### R#13

The VSB implement a question and answer period at public Board meetings to hear from stakeholders.

#### R#14

The VSB create an Audit Committee, including in the membership of the committee external experts to provide recommendations on various strategies, financial situations, risk management scenarios, and other complex issues.

#### R#15 (EY OG7)

The VSB develop and implement a framework specifying the collective knowledge, skills and experience required to fulfill its responsibilities, and a corresponding process to assess the collective skills of the Board in order to:

- Identify specific needs for the upcoming term's orientation program.
- Support the development of training and development plans for individual Trustees.
- Identify the need for external advisors and expertise based on skills gaps.
- Leverage resources and precedents from the BC School Trustees Association.

#### R#16

The VSB include in its Strategic Plan a framework and process enabling the District to set objectives, establish performance expectations, create metrics, and measure and report on employee performance. This framework should link to objectives in the Strategic Plan and be an active tool for both Vancouver School District management and the Board. *This process should be conducted regularly and at least once per year.*

**R#17**

The VSB develop a performance management process for the Board of Trustees that:

- contains clearly defined criteria relating to the Board's stewardship role and a self-assessment process to measure the performance of the Board in achieving its objectives and effectively providing oversight;
- aligns with the planning and reporting cycle of the district's overall performance measurement framework;
- includes evaluation by Trustees, stakeholders, and management; and
- is reviewed annually.

**R#18**

The VSB create a performance management framework for the Superintendent, that:

- has clearly articulated and appropriate timelines for achievement;
- is developed collaboratively between the Board and Superintendent to promote transparency and open, two-way communication; and
- is reviewed two to four times per year.

**R#19**

The VSB immediately update the Long Range Facilities Plan (LRFP) to reduce facility costs and align the space requirements per pupil with other comparable school districts.

**R#20**

The VSB immediately conduct an assessment of the other measures that are available to replace the lost income and foregone savings associated with the closure of the 11 schools.

**R#21**

The VSB immediately commence a review of its 14 collective agreements and develop a strategy to reduce them in number and modernize the language contained within them to limit or eliminate unnecessary inefficiencies resulting in high costs to the district.

**R#22**

The VSB immediately engage with the Public Sector Employers Council (PSEC) and the affected unions to identify opportunities for better service alignment and to develop options, well in advance of the commencement of the collective bargaining process, that will begin prior to the expiry of the existing collective agreements beginning in 2019.

**R#23**

The VSB immediately explore, in partnership with relevant unions, the opportunity to develop service agreements with other government or non-government agencies to better use underutilized staff.

#### R#24

In the event that underutilized staff can be put to work at other agencies or organizations, the VSB work together with the unions to approach the marketplace and secure service agreements or contracts that will maximize the financial recoveries back to the School District to support the fiscal plan.

#### R#25

The VSB conduct a strategic review of the real estate assets by a qualified professional regarding (i) the existing market value of the surplus lands (by way of sale or lease); and (ii) the closed and pending closed school annexes, proposed school closure associated with the LRFP, and non-school assets. This is consistent with EY recommendation BR15.

#### R#26

The VSB retain real estate professionals to assess the market rental potential and highest and best use of each of the school facilities proposed for closure in the LRFP, and adopt those recommendations that result in the best financial outcome. This is consistent with EY recommendation BR16.

#### R#27

The VSB work with the Province to develop viable options for achieving early value (revenue) from the transfer of a partial interest in the Kingsgate Mall to the Province.

#### R#28

The VSB develop a three-year fiscal plan with a 10-year outlook, and update the plan on an annual basis.