

FUNDING MODEL IMPLEMENTATION

**Financial
Management**

WORKING GROUP REPORT

OCTOBER 4, 2019

Background

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

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

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

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

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

Recommendations

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

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

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

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

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

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

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

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

This implementation advice is supported by research and partner submissions:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accountability Recommendations of the Panel

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

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

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

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

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

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

Conclusion

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

Indicators of success will include the following:

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

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

Bibliography

Burns, T., F. Köster and M. Fuster (2016), *Education Governance in Action: Lessons from Case Studies*, Educational Research and Innovation, OECD Publishing, Paris, <https://doi.org/10.1787/9789264262829-en>.

Fazekas, M. and T. Burns (2012), "Exploring the Complex Interaction Between Governance and Knowledge in Education", *OECD Education Working Papers*, No. 67, OECD Publishing, Paris, <https://doi.org/10.1787/5k9flcx2l340-en>.

Organisation for Economic Co-operation and Development (OECD) (2017), *The Funding of School Education: Connecting Resources and Learning*, OECD Reviews of School Resources, OECD Publishing, Paris, <https://doi.org/10.1787/9789264276147-en>.

Appendix A: Working Group Membership and Meeting Dates

Membership:

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

FMI Secretariat Support:

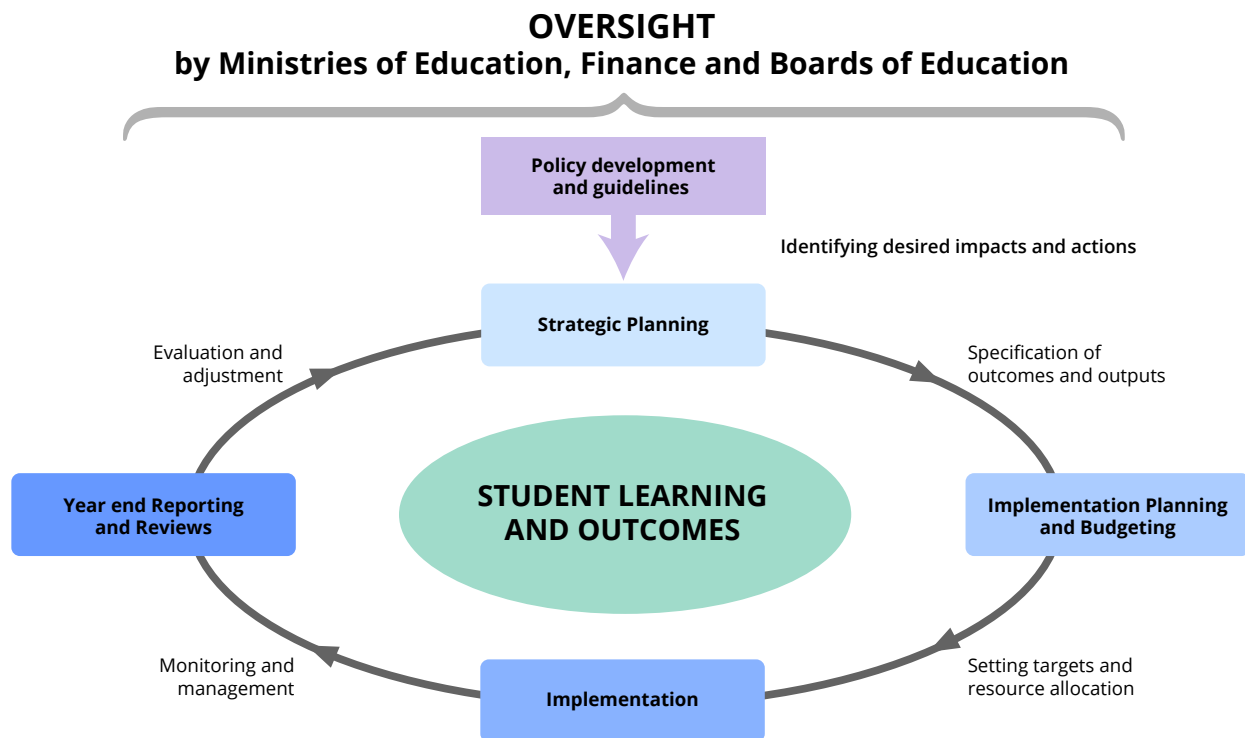
Alisha Olson	Ministry of Education
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Meetings:

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

Appendix B: The Financial Accountability Components and Timelines

The proposed framework for financial accountability can be depicted as:



Timelines

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

Appendix C: Example of Template for Tracking Sector Costs

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

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

Figure 1. Three-Year Operating Plan

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

Figure 2. Three-Year Plan for Accumulated Operating Surplus

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

Figure 3. Three-Year Plan for Local Capital

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

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

Budget Summary

Key Decisions Made in the Budget

Strategic Plan Goals Addressed in this Budget

Use of Reserves

Comparison with Previous Year by Function

Three Year Plan by Function and Key Assumptions and Risks