British Columbia Ministry of Education

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

Final report – Executive Summary Extract

June 8, 2015

1. Executive summary

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

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

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

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

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

Rationale for review

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

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

- Lacked adequate strategic, financial and capital asset plans or tools;
- Focused on short-range planning with little evidence on longer-range district-wide planning;
- Maintain significant excess capacity within the District with minimal evidence that action had been taken to rectify such capacity challenge;

- Faced escalating and unchecked deferred maintenance costs and a seemingly stalled seismic mitigation program; and
- Could continue to identify and implement further cost efficiency and revenue opportunities.

The way forward

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

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

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

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

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

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

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

Budget development and forecasting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accumulated Surpluses and Deficits

Finding: While t**he approaches followed** by VBE **to forecast revenues and expenses are generally reliable** and appropriate as they are based on enrolment, contracts, or historical costs and trends, there are reporting practices related to the Amended Budget that result in **unreasonably high differences between the Board's forecasted deficits and the actual surpluses**.

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

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

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

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

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

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

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

Administrative, support and overhead efficiencies

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

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

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

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

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

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

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

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

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

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

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

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

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

Capital Asset management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Board governance

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

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

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

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

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

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

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

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

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

Recommendation: Establish an Audit Committee to improve the strength of the Board's fiduciary oversight. This is already being used by the Richmond School District and a legislative requirement in the Province of Ontario. Implementation of an Audit Committee of the Board with external members will help ensure that the necessary skills are in place to oversee these initiatives, contribute to sound fiscal management and provide the Board with objective and independent advice. While Trustees appear to fulfill their stewardship responsibilities, regardless of their advocacy agenda, an established Audit Committee would support the importance of stewardship and recognize that advocacy follows stewardship and compliance with the School Act. Improvements can be made to committee meetings to make them more efficient and to minimize unproductive use of staff resources (section 7.1).

Conclusion

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

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

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

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