

British Columbia Ministry of Education

Review of the Vancouver Board
of Education (District 39)

Final report

17 October 2016

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Honourable Mike Bernier
Minister of Education
Province of British Columbia
P.O. Box 9045
Room 310 - Parliament Buildings
Victoria, BC V8V 1X4

Re: 2016 Review of the Vancouver Board of Education (District 39)

Dear Minister Bernier:

It is my privilege to present EY's report on the findings, recommendations and high-level action plan to support the Special Advisor's 2016 Review of the Vancouver Board of Education (School District 39) ("VBE").

To support the work of the 2016 Special Advisor, Peter Milburn, we conducted a three-part review including: a Forensic Audit, an Operations and Governance Review and a 2016/2017 Budget Review.

VBE has made progress implementing some of the recommendations of earlier reviews over the past six years, however, as identified in this report, there are still many challenges and opportunities that lie ahead.

On behalf of my team I would like to thank Special Advisor, the Board of Trustees, management and staff of VBE, the Ministry of Education, other participating school districts and all other review participants for their assistance and cooperation.

Yours sincerely,



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

Defined terms

Accumulated surplus	VBE's net economic resources, representing that amount by which all operating assets (financial and non-financial) exceed all operating liabilities as recorded on the financial statements Consisting of the internally appropriated funds, and unrestricted operating surplus (as defined below)
A/P	Accounts Payable
Actual (operating) surplus	Operating results actually incurred, as recorded in the financial statements, where revenues exceeded expenses
AFG	Annual Facilities Grants
Amended Budget	The third and final budget prepared by VBE for each school year, to be submitted by 28 February before the end of the school year
Appropriation of surpluses	The process by which VBE allocates prior years' surpluses to balance the current years' budgets
Base Budget	The first of three budgets prepared by VBE for each school year
BC	Province of British Columbia
BCPSEC	BC Public School Employers' Association
BCSTA	BC School Trustees Association
Board	Vancouver Board of Education (VBE) Board of Trustees
CAD or \$	Canadian Currency
Committee I	Management and Coordinating Standing Committee
Committee V	Finance and Legal Standing Committee
COV	City of Vancouver

CUPE	Canadian Union of Public Employees
Deficit forecast	Board projections of future operating results where expenses exceed revenues
EY	Ernst and Young LLP, Canada
EY (our) Previous Report	"Report on the Special Advisor's Review of the Vancouver Board of Education (District 39)", dated June 8, 2015
EY (our) Report	This 2016 report
FCI	Facilities Condition Index
FTE	Full Time Equivalent
IPP	Initial Preliminary Projection
IUOE	International Union of Operating Engineers
LCR	Local Capital Reserves
LRFP	Long Range Facilities Plan
MEd	The BC Ministry of Education, the Ministry
MOU	Memorandum of Understanding
Net accumulated surplus	The Accumulated Surplus adjusted for the Internally Appropriated Surplus and unfunded employee liabilities
NGN	Next Generation Network
OCG	Office of the Comptroller General
OCG (2010)	Office of the Comptroller General Special Advisor Report (2010)
PA	Project Agreement
PASA	The Professional and Administrative Staff Association
PDR	Project Definition Report

Preliminary Budget	The second budget prepared by VBE and first to be submitted to the MEd
Prior year appropriated surplus	Funds that are restricted by the Board to offset future year budget deficits
Province	The Province of British Columbia
PY	Prior School Year
Schools	The Vancouver District's school facilities and annexes
SMP	Seismic Mitigation Program
SPiR	Schools Protection Program
SPP	School Year
Subset Districts	Central Okanagan, Burnaby, Coquitlam and Surrey (as defined in the Comparative Staffing Levels Report)
SY	School Year
The Act	The School Act, Province of BC Legislature
Unrestricted operating surplus	Surplus of a prior year that has not been appropriated by the Board to a future year budget deficit or specific commitment
VBE	Vancouver Board of Education, the District, School District 39
VESTA	Vancouver Elementary School Teachers' Association
VPO	Vancouver Project Office
VSD	Vancouver school district, the geographical district
VTF	Vancouver Teachers' Federation

1. Introduction

On July 18, 2016, the Minister of Education appointed Peter Milburn as the Special Advisor under the School Act, S. 171.1(5) to the Board of Education of School District No. 39 (Vancouver) (the “board”) for a term ending September 30, 2016. Note that the reporting date was subsequently extended to October 7, 2016. It was further extended to October 21, 2016.

The Terms of Reference required the Special Advisor to:

- ▶ 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; and
- ▶ Submit a final report to the minister no later than September 30, 2016.

EY provided additional financial audit and governance expertise to support the Special Advisor.

The Special Advisor relied on EY’s work during the development of his Special Advisor’s Final Review Report, which, along with the EY Report, were delivered to the Minister.

2. Background and context

2.1 Provincial overview

The education system in British Columbia (BC) is co-managed by the Ministry of Education (MEd) and BC's 60 elected Boards of Education. The Treasury establishes the amount of grant funding for public education annually, and uses a funding formula to allocate these funds to Boards. Boards then manage and allocate their allotment of operating grant funds based on local spending priorities. In addition, the MEd provides supplemental government funds for capital costs and funding for special programs.

The MEd funding formula has the following goals and objectives in managing BC's education system:¹

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

Boards manage and allocate their allotment of operating grant funds based on local spending priorities.

2.2 Vancouver School District overview

The Vancouver School District (VSD) is among the most diverse public school systems in BC with 92 elementary schools, 1 middle school, 18 secondary schools, approximately 5,330 full time equivalent employees and an annual enrolment of around 54,000 students in kindergarten to grade 12. In addition VBE provides educational programs and services to full-time Adult Education students. VBE has (SY2015/16) \$485.8 million total operating revenue and \$498.6 million total operating expense for the year. The district manages a diverse building portfolio of 702,038m² including new and heritage schools, annexes and a mall.

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

¹ Ministry of Education, available at: www.bced.gov.bc.ca/k12funding/

2.3 Rationale for the 2016 review

As discussed in detail in EY's 2015 Report, VBE management prepares and releases a series of financial documents that aid the Board and key stakeholders regarding the anticipated financial performance of the school district. The Secretary-Treasurer has the overall responsibility for budget preparation, in co-operation with the Superintendent of Schools and other senior management. The documents developed each budget cycle include the Initial Preliminary Projections, and the Base Budget, Preliminary Budget, and Amended Budget. The documents are prepared as additional information becomes available, over a period of 16 months.

Under the School Act all school districts are required to pass a balanced budget in the Amended Budget by June 30 each year. This year, the VBE Board of Trustees failed to pass a balanced budget for the 2016/17 school year (while the remaining 59 school districts all did so) which put it in contravention of the Act.

As a result, the Minister of Education appointed Special Advisor, Peter Milburn, to lead a review of the VBE.

2.4 Recent developments

Subsequent to the completion of our field work during the week ending 30 September 2016, a number of developments occurred:

1. **School Closure List** - we conducted our analysis on the financial impact of closing 11 schools contained in the School Closure List that was presented at the Board meeting on September 26, 2016. On Monday, October 3, 2016, the Board suspended the School Closure List consultation process. Annex C - Budget Review - contains our analysis, findings and recommendations based on information collected up to and including September 30, 2016.
2. **Suspension of School Closure Consultation Process** - additional analysis of the impacts arising from the VBE decision to suspend consultation on the School Closure List, and the associated financial decisions made during the period October 1 to 15, 2016, are examined in the School Closure Supplemental Report;
3. **Confidential Information Related to Kingsgate Mall** - to address the concern expressed by Mike Lombardi, Vancouver School Board Chairperson, regarding the confidentiality of the information obtained from the VBE, we prepared a separate confidential supplementary report summarizing our analysis of the Kingsgate Mall project; and
4. **Personnel Changes** - *personal information*

They were replaced by Acting Superintendent Dr. Steve Cardwell and Acting Secretary Treasurer Rick Krowchuk. In addition, several other members of the District Management Team are not at work at the time of writing.

3. Project objectives and scope

In accordance with the Ministerial Order, EY supported the Special Advisor through completion of three distinct work streams.

1. Forensic audit

EY conducted a forensic audit of the Board's expenditures, and other supplementary activities as appropriate, to answer the following:

- a. Are expenses incurred in accordance with established policies?
- b. Do expenses relate solely to legitimate operations of the Board?
- c. Are Board expenses adequately supported?

2. Operations and Governance Review

EY conducted an assessment of the Board's Operations and Governance, including but not limited to:

- a. The extent to which the Board has considered the information presented by management in decision making;
- b. 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; and
- c. The extent to which the Board has in place adequate systems and practices to monitor the organization's performance; and the extent to which it operates accordingly.

3. 2016/17 Budget Review

EY reviewed and assessed the District's 2016-17 budget reductions strategies and considered other potential opportunities to achieve a balanced budget that would have less of an impact on classroom instruction. Activities included:

- a. Reviewing and assessing prior Special Advisor recommendations and progress in implementing recommendations;
- b. Reviewing the District proposed budget, including the bridge between the 2016-17 initial preliminary projection; base budget; and preliminary budget and impact on classrooms;
- c. Identifying and considering in consultation with the District as appropriate, alternative funding mechanisms and cost saving measures;
- d. Gathering and analyzing comparative District benchmark data and information;
- e. Assessing the effectiveness of District and Provincial corporate funds on deposit activities;
- f. Reviewing the latest District facilities plan and status against previous Special Advisor report. This included an assessment of revenue, cost savings, deferred maintenance, capacity management and capital requirements in the short and longer term; and
- g. Identifying medium and longer term budget challenges and opportunities, and assessing sustainability.

4. Summary of recommendations and high-level action plan

The table below contains recommendations and indicative timeframes to complete implementation of each recommendation. The timeframes are as follows:

- ▶ Short Term (S): up to six 6 months;
- ▶ Medium Term (M): 6 to 18 months; and
- ▶ Long Term (L): 19 months and longer.

Ref	Recommendation	Timeframe
Annex A: Forensic audit report		
FA1	<p>It is recommended that VBE develop a policy/practice that allows for a reasonable allocation of costs to the individual trustees for the use of VSD supplied phones. This could be completed in two steps:</p> <ul style="list-style-type: none"> ▶ Develop cell phone cost allocation policy ▶ Implement cell phone cost allocation policy 	(S)
Annex B: Operations and Governance		
OG1	<p>The VBE to implement better practices with respect to Standing Committee and Board meeting procedures to enable the oversight structure to function effectively and efficiently. This includes implementing practices to:</p> <ul style="list-style-type: none"> ▶ Streamline the procedures for attendance and acceptance of input from non-members of the committee, including both stakeholder representatives and non-member Trustees; ▶ Analyze stakeholder representation to evaluate the effectiveness of these groups in both representing the community at large and providing equal representation at meetings, and implement improvements as required <p>Consistent with best practices at other large districts in the region we recommend that VBE designate committee meetings as in camera, in order to depoliticize them and allow Trustees to focus on the business of providing oversight. We recommend that Stakeholder consultation be delegated to management for all but the most significant issues, with the results presented to Trustees at the relevant Committee meetings. Finally, we recommend that a question and answer period be used at the Board meetings to hear from Stakeholders.</p>	(S)

Ref	Recommendation	Timeframe
OG2	The VBE to better document and update relevant governance policy to clarify that the role of Trustees is that of stewardship first-and-foremost. Both stewardship and advocacy should be defined within policy to ensure that there is no confusion, and a signed acknowledgement should be obtained in addition to the statutory Oath signed by Trustees at the commencement of their term.	(S)
OG3	The VBE 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.	(S)
OG4	The VSD amend its policies to specifically address the issues of block voting, influence (including political influence) and open-mindedness of Trustees. The VBE consult with the BCSTA to identify best practices from other large, urban districts in the region that have succeeded in removing political discourse from Board business.	(M)
OG5	The VBE comply with s72 of <i>The School Act</i> and take minutes of all proceedings of the Board. Further, to ensure transparency and follow the spirit of the <i>Act</i> , we recommend that all meetings of Trustees discussing District business follow the guidance of s72, regardless of the nature of the meeting.	(M)
OG6	The VBE re-consider 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.	(M)
OG7	The VBE to 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: <ul style="list-style-type: none"> ► 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 VBE should leverage resources and precedents from the BC School Trustees Association.	(M)
OG8	Notwithstanding the results of the skills assessment, the VBE establish and implement an Audit Committee of the Board, with at least one member being a financial expert with relevant experience and skills. At least one member should also be an external individual that is independent of the VBE, which could be fulfilled by the District's external auditor if the VBE has a Trustee with relevant experience and skills. If the VBE does not have a Trustee with the relevant experience and skills, we recommend an independent, non-voting lay expert be a member of the committee in order to provide advice to the Trustees, thereby fulfilling both the independence and skills and knowledge requirements. VBE should leverage resources and precedents from the BC School Trustees Association.	(M)

Ref	Recommendation	Timeframe
OG9	The VBE ensure that the current Strategic Planning exercise includes the development of a performance measurement framework and process to enable the VSD to set objectives, establish performance expectations, create metrics, and measure and report on performance at least annually. This framework should directly tie to objectives set out in the Strategic Plan, once completed, and be an active tool for both VSD management and the Board. We recommend the VBE leverage the best practices available from the BCSTA in this area.	(M)
OG10	The VBE develop a performance measurement framework and self-assessment process to measure the performance of the Board in achieving its objectives and effectively providing oversight. This process should align to the planning and reporting cycle of the VSD's overall performance measurement framework. We recommend the VBE leverage the best practices available from the BCSTA in this area.	(S)
OG11	The VBE develop a performance measurement framework and assessment process to measure the performance of the Superintendent in achieving their objectives and fulfilling their role. This process should align to the planning and reporting cycle of the VSD's overall performance measurement framework. The framework should be developed collaboratively between the Board and Superintendent to promote transparency and open, two-way communication. We recommend the VBE leverage the best practices available from the BCSTA in this area.	(S)
Ref	Recommendation	Timeframe

Annex C: 2016/2017 budget review

BR1	VBE should continue to implement the prior recommendations of the 2015 Special Advisor where it concurred with the recommendation and that remain to be commenced or are a work in progress.	(S)
BR2	EY wishes to highlight one of the prior recommendations of the Special Advisor in particular; being the recommendation pertaining to the establishment of a business development team. While EY recognizes the financial constraints of the VBE and the efforts made by VSD Management to mitigate the impact on the classroom, and the, likely, adverse cash flow associated with the establishment of the business development team in the near term, EY considers it essential that the VBE accelerate the establishment of the business development team to mitigate longer term classroom impact through enhanced cash flow associated with strategic alliances and partnerships.	(S)
BR3	EY commends the VBE for its efforts in focusing all available cash resources to mitigate the impact on the classroom associated with the current year budgetary constraints, EY recommends that the VBE continue to action the prior recommendations of the Special Advisor that are being considered and will have a long term impact.	(S)

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Ref	Recommendation	Timeframe
BR4	VBE should reconsider the prior recommendations of the EY 2015 Report to which it did not concur. For instance, the VBE should establish a guidance threshold target for the Accumulated Surpluses; however, consistent with modifications to the recommendation made to the MEd (as outlined in this report), the threshold target should be based on Total (versus net) Operating Accumulated Surpluses. Surplus balances promote flexibility to absorb future year one-time costs, unforeseen expenditures, or reduced revenue due to declining enrolment.	(M)
BR5	EY reiterates the recommendation already included in the EY 2015 Report that the VBE not publish the IPP, which is significantly misleading for the public perception of VBE's financial circumstances. VBE should publish and disclose only the Preliminary Budget and Amended Budget to minimize the confusion about the forecasts, complying with practices of comparable school districts (including Surrey and Central Okanagan).	(S)
BR6	<p>EY reiterates its recommendation included in the EY 2015 Report that the VBE critically review the documents created in preparation of the budget; specifically when there is no clear use of these documents (e.g. Fiscal Framework and Restoration Budget) and in order to eliminate the documents that are not necessary and useful to stakeholders.</p> <p>However we recognize that certain events will trigger the need to release new documents, such as strikes or additional grant and holdback funding, which events are outside of the VBE's planning and control process and necessary for the stakeholders to gain an enhanced understanding of the budget.</p>	(S)
BR7	VBE should undertake a market sounding respecting international students to determine the elasticity of demand relative to tuition pricing. While we understand the competitive nature of the environment in which the VBE competes for international students, we also recognize the significant demand that exists for placement of international students within the bounds of the VBE. With a current international student population of 1,126 students, each \$1,000 tuition increase represents an additional \$1.126 M in revenue; there is a profit optimization point between international student enrolment and tuition pricing that should be determined by the VBE.	(S)
BR8	VBE should seek the means of to achieve a greater financial return on the funds on deposit under the Central Deposit Program with the Province of British Columbia. We have identified an available amount of approximately \$94M (associated with long term liabilities and other capital needs) that may be invested for differing investment periods (aligned with usage needs) to achieve greater economic return to the VBE.	(S)
BR9	VBE should benchmark its performance on a regular basis against a subset of alternative, but representative, school districts to improve operational performance and cost efficiency and achieve or adopt "best in class" performance and/or identify barriers to be addressed that prevent it from achieving such performance standard.	(S)

Ref	Recommendation	Timeframe
BR10	VBE should immediately commence a review of the 14 collective agreements (other school districts in the Province are typically subject to no greater than three collective agreements, and the vast majority have two collective agreements) to which it is subject and that are constraining the ability of the VBE to realize necessary labour cost savings available to other school districts. In furtherance of this recommendation, we suggest that the VBE engage in a detailed consultative process with the Public Sector Employers' Council (PSEC) and the affected unions to identify opportunities for better service alignment and to consider the alternatives 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.	(S)
BR11	VBE should commence discussions with the Province to potentially develop a service agreement which may better utilize 30 FTE staff from CUPE 407 for half a year (based on VBE's Management estimates). Through discussion with Management of the VBE, it is understood that they do not require the full 101 FTE mandated by the CUPE 407 (i.e. grounds staff) collective agreement for the entire year.	(S)
BR12	VBE should engage with the MEd to maximize the utility of invested capital associated with the SMP to sustain the economic life of the school facilities. This engagement would include coordination of deferred maintenance undertakings and/or alternative means of achieving an acceptable economic outcome when considering the cost of the SMP and deferred maintenance associated with an individual school facility relative to the schools replacement cost. Please refer to the School Closure Supplemental Report for further discussion.	(M)
BR13	VBE should commit to a systemic asset rationalization approach aimed at capacity rationalization to a target utilization, with an annual review. It is noted that the proposed LRFP rationalization would increase the effective utilization of the VBE to 91.7% immediately thereafter. It is further noted that utilization within the VBE will, likely, continue to erode between today and 2030, arising from the addition of a planned 3,070 seats over the next 15 years and a flat or near flat enrolment projection throughout the forecast period. Absent other alterations to supply and demand, the closure of the 11 schools will cause utilization to improve to approximately 89.3%, therefore a second round of school closures will be required, which is provided for in the LRFP (approximately 3,439 seats to be closed by 2025). Please refer to the School Closure Supplemental Report for further discussion.	(L)
BR14	VBE should seek the means to maximize the value attributable to its asset rationalization program. The maximization approach would include: (i) a strategic review of the real estate assets by a qualified professional having regard to 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. Please refer to the School Closure Supplemental Report for further discussion.	(M)

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Ref	Recommendation	Timeframe
BR15	VBE should engage 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 following a final determination of the facilities disposition by the Trustees. The timing of the engagement of the real estate professionals must be aligned with the staggered period to which the facilities will become available for alternative use following the facility's hosting responsibility as swing space. Please refer to the School Closure Supplemental Report for further discussion.	(M)
BR16	VBE should review all policies approved by the Board that would limit the ability of the VBE to achieve proceed generation and revenue opportunities associated with the foregoing assets. Specifically, this would include a review of the June 15, 2016 policy limiting the VBE to lease existing surplus assets to other private education institutions. Please refer to the School Closure Supplemental Report for further discussion.	(S)
BR17	VBE should continue its efforts, and accelerate same where possible, to identify surplus lands associated with existing and operating school facilities that may be subdivided for alternative use, resulting in the monetization of value for the VBE and the benefit of an alternative asset for the community at large.	(M)
BR18	VBE should engage with the Beedie Group to develop an alternative approach to the lands to realize the underlying market value associated therewith, which we estimate at an amount not less than \$120M.	(S)
BR19	VBE should enter into discussions with the MEd to achieve an agreement that could allow the VBE to achieve early crystallization of value and an alternative income stream associated with the Kingsgate Mall; to assist with rectifying its on-going budgetary constraints.	(S)

In the Annexes which follow detailed and comprehensive reports present the analysis, findings, recommendations and high-level action plans for each of the reviews. The two supplemental reports contain the additional analysis as described above.

British Columbia Ministry of Education

Review of the Vancouver Board of
Education (District 39)

Annex A – Forensic audit report

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1. Mandate

Ministry requirement: Conduct a forensic audit of the Board's expenditures

1.1. Introduction

In July 2016, the Minister of Education appointed a special advisor to the Board of Education of School District No. 39 (Vancouver) ("Vancouver School Board" or "VBE") in response to concerns related to the Board's failure to pass a balanced budget, as required under the School Act.

1.2. Scope and approach

Ernst & Young LLP ("EY") was engaged to support the Special Advisor by conducting a forensic audit of the Board's expenditures. Our review covered Board expenditures made during the period from July 1, 2013 to June 30, 2016 ("Period of Review"). Specifically we were asked to:

- 1) Conduct a forensic audit of the Board's expenditures, and other supplementary activities as appropriate, such that the following are answered:
 - a. Are expenses incurred in accordance with established policies?
 - b. Do expenses relate solely to legitimate operations of the Board?
 - c. Are Board expenses adequately supported?

In conducting our work we were asked by the Minister through the Special Advisor to assume that the "Board Expenditures" subject to our forensic audit would include those expenses for which Board Trustees had sought reimbursement from the VSD and/or Trustee expenses paid by the VSD on behalf of a specific Trustee.

Our work focused on the following trustees:

1. Allan Wong
2. Cherie Payne
3. Christopher Richardson
4. Fraser Ballantyne
5. Janet Fraser
6. Joy Alexander
7. Ken Clement
8. Ken Denike
9. Mike Lombardi
10. Patti Bacchus
11. Penelope Noble
12. Rob Wynen
13. Sophia Woo
14. Stacy Robertson

Details regarding the information and individuals we relied upon, as well as the nature and extent of the work we performed are included in Section 2, Nature and extent of work performed.

1.3. Restrictions on the use of this report

This Report is intended solely for the information of the Special Advisor in reporting to the Ministry of Education. The report is not intended to be and should not be used by anyone without the authorization of the Special Advisor and/or the Ministry of Education. EY assumes no responsibility to any other user of the Report. Any unauthorized persons who choose to rely on our Report do so entirely at their own risk.

This Report does not constitute an audit as defined by the Chartered Professional Accountants of Canada. EY will not render an assurance report or opinion, nor will our services constitute an audit, review examination or other form of attestation as those terms are defined by applicable professional standards.

This Report is based on our review of information and documents available to date as supplied by the VSD and described in this Report. In the event further documents or other information become available that could impact our findings, we reserve the right to review such records and reconsider and amend the findings set out in this Report.

2. Nature and extent of work performed

2.1. Our approach

We relied on information and documentation obtained from VSD staff. In order to complete our work we performed the following tasks:

- ▶ Conducted interviews and discussions with the following individuals regarding VBE expenses policies, accounting data and supporting documentation requirements:
 - ▶ Russell Horswill (Secretary-Treasurer, VSD)
 - ▶ Lisa Landry (Director of Finance, VSD)
- ▶ Reviewed VBE Policy Manual(s) applicable to the Period of Review.
- ▶ Obtained and reviewed VSD reports relating to trustee expenses in order to identify and quantify the amounts paid on behalf of trustees and the amounts reimbursed directly to trustees
- ▶ Reviewed supporting documentation with respect to payments made for trustee expenses to substantiate a sample of payments

A list of documents we analyzed and relied upon is included in Section 4, *Appendix A - Scope of review*.

3. Findings

3.1. Review of trustee expenses

The following table shows the Board expenditures for all trustees for the Period under Review.

Table 1: Trustee expenses				
	2014 \$	2015 \$	2016 \$	Total \$
Attributable expenses				
Salary	223,283	240,956	236,104	700,343
Non-salary	18,114	9,697	5,537	33,348
Sub-total	241,397	250,653	241,641	733,691
Non-attributable expenses				
Computer Hardware	565	8,894	1,843	11,302
Supplies, furniture and equipment	1,028	582	—	1,610
Course/workshop fees	7,629	12,962	—	20,591
Travel/conference	204	6,435	20,824	27,463
Cell phone	(686)	—	—	(686)
Parking and other travel expenses	389	(168)	—	221
Printing -in-house	2,109	5,598	4,856	12,563
Sub-total	11,237	34,303	27,523	73,063
Grand total	252,634	284,956	269,164	806,754

Attributable expenses are those that could be traced to individual trustees for which the expense was incurred. Non-attributable expenses are those for which it could not be determined to which trustee(s) the expense related but were recorded by the VSD as Trustee related expenses.

With respect to the non-attributable expenses we noted the following:

- ▶ There was a total of \$20,591 for expenses related to Course/Workshop Fees, of which \$12,962 appears to be for professional development in the VSD accounting records. We understand that rather than representing actual costs incurred these are internal charges representing the difference between actual expenditures and the budgeted amounts for professional development to allow for a carryover of unspent funds to the next year.
- ▶ There was a total of \$27,463 for expenses related to Travel/Conferences, of which \$33,876 appears to be for an accrual for professional development in the VSD accounting records. We understand that rather than representing actual costs incurred these are internal charges representing the difference between actual expenditures and the budgeted amounts for professional development to allow for a carryover of unspent funds to the next year.

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The remainder of this section refers to attributable expenses.

3.2. Review of attributable trustee expenses

The following table shows the attributable Board expenditures by trustee for the Period under Review.

Table 2: Attributable trustee expenses							
Trustee	2014		2015		2016		Total
	Salaries \$	Non- salary expenses \$	Salaries \$	Non- salary expenses \$	Salaries \$	Non- salary expenses \$	
Allan Wong	24,581	2,568	26,539	—	25,990	—	79,678
Cherie Payne	24,581	1,731	11,756	713	—	1,029	39,810
Christopher Richardson	—	2,730	15,901	1,497	25,990	—	46,118
Fraser Ballantyne	24,581	495	26,540	—	26,998	—	78,614
Janet Fraser	—	—	14,784	1,490	26,002	573	42,849
Joy Alexander	—	—	14,784	1,242	25,990	—	42,016
Ken Clement	24,581	—	11,756	1,490	—	1,166	38,993
Ken Denike	24,581	5,087	11,756	41	—	1,649	43,114
Mike Lombardi	24,581	495	26,540	—	27,176	—	78,791
Patti Bacchus	26,634	493	27,521	304	25,990	28	80,971
Penelope Noble	—	3,065	14,784	407	25,978	—	44,234
Rob Wynen	24,581	—	11,756	1,242	—	—	37,579
Sophia Woo	24,581	1,450	11,756	—	—	—	37,787
Stacy Robertson	—	—	14,784	1,271	25,990	1,092	43,137
Grand total	223,282	18,114	240,957	9,697	236,104	5,537	733,691

As part of our review, we obtained and reviewed supporting documentation for a sample of payments made for trustee expenses. Our sample was composed of all trustee expenses with a dollar value greater than \$250. Based on our sample testing, all payments had sufficient supporting documentation to substantiate the payment.

3.3. Method of payment for non-salary expenses

During the Period of Review, there were two methods of payment to reimburse the Board's expenditures:

- ▶ Expenses paid on behalf of the trustee
- ▶ Expenses reimbursed to the trustee

The following table shows the dollar amounts for each method of payment by trustee.

Table 3: Method of payment			
Trustee	Expenses paid on behalf of the trustee	Expenses reimbursed to the trustee	Total
	\$	\$	\$
Allan Wong	521	304	825
Cherie Payne	495	—	495
Christopher Richardson	2,656	—	2,656
Fraser Ballantyne	5,049	1,728	6,777
Janet Fraser	2,063	—	2,063
Joy Alexander	1,242	—	1,242
Ken Clement	495	—	495
Ken Denike	2,289	1,184	3,473
Mike Lombardi	1,531	1,941	3,472
Patti Bacchus	1,379	2,848	4,227
Penelope Noble	2,363	—	2,363
Rob Wynn	2,568	—	2,568
Sophia Woo	1,450	—	1,450
Stacy Robertson	1,242	—	1,242
Grand total	25,343	8,005	33,348

With respect to the method of payment for Board expenditures, we noted that approximately 76% of the Board expenditures incurred during the Period of Review were paid by VSD on behalf of the trustee. The remaining 24% was paid by the trustee and subsequently reimbursed by VSD.

Expenses paid on behalf of the trustee

Expenses paid on behalf of the trustee are for payments that were made by VSD to vendors. The following table shows the total amounts for expenses paid on behalf of each trustee for the three fiscal years in the Period of Review.

Table 4: Expenses paid on behalf of the trustee

Trustee	2014 \$	2015 \$	2016 \$	Total \$
Allan Wong	493	—	28	521
Cherie Payne	495	—	—	495
Christopher Richardson	—	1,490	1,166	2,656
Fraser Ballantyne	3,366	34	1,648	5,048
Janet Fraser	—	1,490	574	2,064
Joy Alexander	—	1,242	—	1,242
Ken Clement	495	—	—	495
Ken Denike	2,289	—	—	2,289
Mike Lombardi	1,079	—	452	1,531
Patti Bacchus	1,379	—	—	1,379
Penelope Noble	—	1,271	1,092	2,363
Rob Wynn	2,568	—	—	2,568
Sophia Woo	1,450	—	—	1,450
Stacy Robertson	—	1,242	—	1,242
Grand total	13,614	6,769	4,960	25,343

With respect to payments made on behalf of the trustee, we noted the following:

- ▶ Approximately 54% of the expenses occurred during the 2014 fiscal year and 27% and 19% in the 2015 and 2016 fiscal years, respectively
- ▶ The three trustees with the highest total amounts of expenses accounted for approximately 41% of the total payments made on behalf of the trustee.

3.3.1. Expenses reimbursed to the trustee

Expenses reimbursed to the trustee relate to expenses that were paid directly by the trustee and subsequently reimbursed by VSD to the trustee. The following table shows the total amounts for expenses that were paid directly by each trustee and subsequently reimbursed by VSD for the three fiscal years in the Period of Review.

Table 5: Expenses reimbursed to the trustee

Trustee	2014 \$	2015 \$	2016 \$	Total \$
Allan Wong	—	304	—	304
Cherie Payne	—	—	—	—
Christopher Richardson	—	—	—	—
Fraser Ballantyne	1,721	7	—	1,728
Janet Fraser	—	—	—	—
Joy Alexander	—	—	—	—
Ken Clement	—	—	—	—
Ken Denike	776	407	—	1,183
Mike Lombardi	651	713	577	1,941
Patti Bacchus	1,352	1,497	—	2,849
Penelope Noble	—	—	—	—
Rob Wynn	—	—	—	—
Sophia Woo	—	—	—	—
Stacy Robertson	—	—	—	—
Grand total	4,500	2,928	577	8,005

With respect to payments made to reimburse trustees for expenses, we noted the following:

- ▶ Approximately 56% of the payments occurred for the 2014 fiscal year
- ▶ Only five (out of 14) trustees received reimbursement payments from VSD
- ▶ Approximately 36% of the payments made relate to one (out of 14) trustee

3.4. Types of expenses

As part of our review, we identified and categorized Board expenditures into the following five types of expenses:

- ▶ **Conference/travel:** This expense type was comprised of expenses related to conferences attended and travel made by trustees in carrying out his or her duties as a trustee. This expense type includes the following subtypes:
 - ▶ Registration fees and expenses
 - ▶ Hotel
 - ▶ Meals
 - ▶ Travel, car allowance

- **Fees - Other:** During the Period of Review, this expense type was comprised of one payment made to reimburse a trustee for obtaining finger prints as part of the requirement for trustee's to complete a criminal record check.
- **Supplies:** During the Period of Review, this expense type was comprised of two payments made to reimburse a trustee for purchases of protective cases for the trustee's cell phone.
- **Cell phone:** This expense type was comprised of payments made to reimburse trustees for charges related to cell phone use.
- **Business cards:** This expense type was comprised of payments made on behalf of trustees for costs related to printing business cards.

The following table shows the total amounts paid for each of the types of expenses by trustee.

Trustee	Conference / travel				Fees - Other	Supplies	Cell phone	Business cards	Total
	Registration fees and expenses	Hotel	Meals	Travel, car allowance					
	\$	\$	\$	\$	\$	\$	\$	\$	\$
Allan Wong	495	—	—	219	85	—	(2)	28	825
Cherie Payne	495	—	—	—	—	—	—	—	495
Christopher Richardson	2,258	—	—	398	—	—	—	—	2,656
Fraser Ballantyne	5,705	116	—	946	—	—	(23)	34	6,778
Janet Fraser	1,242	—	—	821	—	—	—	—	2,063
Joy Alexander	1,242	—	—	—	—	—	—	—	1,242
Ken Clement	495	—	—	—	—	—	—	—	495
Ken Denike	2,180	—	—	81	—	—	1,184	28	3,473
Mike Lombardi	896	—	99	513	—	81	1,835	47	3,471
Patti Bacchus	1,379	—	—	—	—	—	2,848	—	4,227
Penelope Noble	2,363	—	—	—	—	—	—	—	2,363
Rob Wynen	882	700	145	841	—	—	—	—	2,568
Sophia Woo	1,431	—	—	—	—	—	—	19	1,450
Stacy Robertson	1,242	—	—	—	—	—	—	—	1,242
Grand total	22,305	816	244	3,819	85	81	5,842	156	33,348

With respect to the types of expenses related to Board expenditures, we noted the following:

- Approximately 82% of the payments were for conferences and travel, of which approximately 67% were for registration fees and expenses
- Approximately 18% of the payments are for payments made to reimburse trustees for charges related to cell phone use

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3.4.1. Cell phone expenses

The following table shows the total amounts for cell phone expenses that were paid directly by each trustee and subsequently reimbursed by VSD for the three fiscal years in the Period of Review.

Table 7: Cell phone expenses

Trustee	2014 \$	2015 \$	2016 \$	Total \$
Allan Wong	(2)	—	—	(2)
Cherie Payne	—	—	—	—
Christopher Richardson	—	—	—	—
Fraser Ballantyne	(23)	—	—	(23)
Janet Fraser	—	—	—	—
Joy Alexander	—	—	—	—
Ken Clement	—	—	—	—
Ken Denike	776	407	—	1,183
Mike Lombardi	651	640	544	1,835
Patti Bacchus	1,352	1,497	—	2,849
Penelope Noble	—	—	—	—
Rob Wymen	—	—	—	—
Sophia Woo	—	—	—	—
Stacy Robertson	—	—	—	—
Grand total	2,754	2,544	544	5,842

With respect to the cell phone expenses, we noted the following:

- ▶ Only five (out of 14) trustees had amounts reported for cell phone expenses; however two of the five occurred in the 2013 calendar year and appear to be for credits under \$25
- ▶ VSD does not include cell phone expenses in the SOFI reports which report the remuneration and expenses paid in respect of each trustee

Based on discussion with VSD management, we understand that many of the trustees are provided with a mobile phone and/or iPad. The following table shows the trustees that currently have or previously were provided with a VSD device during the Period of Review.

Table 8: VSD provided devices

Trustee	Mobile phone	iPad
Allan Wong	✓	✓
Cherie Payne	✓	✓
Christopher Richardson	✓	✓
Fraser Ballantyne	✓	✓
Janet Fraser	✓	—
Joy Alexander	—	—
Ken Clement	—	✓
Ken Denike	—	✓
Mike Lombardi	—	✓
Patti Bacchus	—	—
Penelope Noble	—	—
Rob Wymen	✓	✓
Sophia Woo	—	✓
Stacy Robertson	✓	—
Total count	7	9

Based on our analysis, we noted that none of the trustees that were reimbursed for cell phone expenses, as reported in Table 7, were listed as having been provided with a VSD device. The VSD has indicated to us that they pay for charges associated with the use of the above devices on a bulk basis and as a result they are unable to provide individual costs at a Trustee level.

4. Conclusions

Based on our analysis, we note the following conclusions:

- ▶ Based on our 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 VBE policies. The expense 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 SOFI reports. Based on discussion with VSD 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 VSD supplied cell phones are also excluded.

5. Recommendation

We believe that VSD should be reporting all cell phone charges as part of the SOFI reporting process. To provide a fair process to all trustees, the amount reimbursed for personal trustee cell phones should be reported along with an allocation to other trustees for VSD supplied cell phones.

As such it is recommended that VBE develop a policy/practice that allows for a reasonable allocation of costs to the individual trustees for the use of VSD supplied phones.

6. High-level action plan

The table below contains a recommendation and indicative timeframe to complete its implementation. The timeframes are as follows:

- ▶ Short Term (S): up to six 6 months;
- ▶ Medium Term (M): 6 to 18 months; and
- ▶ Long Term (L): 19 months and longer.

Ref	Recommendation	Timeframe
FA1	It is recommended that VBE develop a policy/practice that allows for a reasonable allocation of costs to the individual trustees for the use of VSD supplied phones. This could be completed in two steps: <ul style="list-style-type: none">▶ Develop cell phone cost allocation policy▶ Implement cell phone cost allocation policy	(S)

British Columbia Ministry of Education

Review of the Vancouver Board of
Education (District 39)

Annex B – Operations and governance report

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1. Introduction

1.1 Mandate

Ministry requirement 1: Conduct a full review of the Board's operations and governance, including an assessment of the extent to which the Board has considered the information presented by management in decision making.

Ministry requirement 2: 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.

Ministry requirement 3: Assess the extent to which the Board has in place adequate systems and practices to monitor the organization's performance; and the extent to which it operates accordingly.

1.2 Overview

Like any organization, the best way for the District to meet performance expectations as a whole is to actively monitor and review itself by practicing good governance. Governance refers to the structures, systems, and practices an organization has in place to:

- ▶ Assign decision-making authorities and establish processes for how decisions are made;
- ▶ Oversee the delivery of objectives, implementation of policies and programs, and management of organizational risk; and,
- ▶ Report on performance in achieving intended results and use performance information to drive improvements and corrective action.¹

Governance is exercised at different levels within an organization, most commonly structured as a framework between Management and an oversight Board or Committee.² Each level of a governance framework plays a complementary but distinct role, separated to promote objectivity in decision-making. In keeping with good governance, the VBE should play the valuable function of providing oversight of key strategic decisions, leaving the day-to-day implementation, monitoring, and responsibility of certain activities to the VSD management.

As discussed in EY's 2015 Special Advisor Review Report ('2015 Review'), ultimately, the key responsibilities of a public sector oversight body, such as the VBE, include the ability to:

- ▶ Add value and provide support for management in establishing strategy and reviewing risks and opportunities;
- ▶ Effectively monitor the performance of management and the organization; and,

¹ Canadian Comprehensive Auditing Foundation. (2014) *Practice Guide to Auditing Oversight*.

² *ibid.*

- ▶ Account for the performance of the organization.

Governance and the BC Education Sector

In addition to the above responsibilities common to all public sector Boards, the VBE must set and make strategic decisions while at the same time promote and sustain student achievement standards to meet legislative responsibilities under the *School Act*. Under the Act, a multitude of stakeholders share the responsibility for the delivery and management of education, including the Province, schools and teachers, stakeholder groups, and school boards and their administration, adding to the overall complexity of governance.

Board Trustees are elected by the eligible general public for a specified term. For the Trustees of the VBE, the term is four years. The Board is ultimately responsible for its own effectiveness and achieves its objectives through the management of the VSD, including the operations of schools, and through the custody, maintenance, and safekeeping of all property owned or leased by the VSD.

Outside of the *School Act* and its supporting regulations, other sources of guidance or information are available to BC's Boards of Education and include:

- ▶ Office of the Auditor General of BC: the organization responsible for public sector performance auditing in BC, the Office provides reports and guidance material on good governance such as *Public Sector Governance – A Guide to the Principles of Good Practice*
- ▶ BC School Trustees Association: the professional association that provides members of BC's Board of Education with development opportunities, legal counsel, and communications, including a four-part learning module on *Good Governance for Boards of Education* as part of their Trustee Development Program

1.3 Scope and approach

1.3.1 Work stream scope and objectives

While based on a similar foundation and approach to the 2015 Review, the scope of the 2016 review reflects the MEd's specific and pointed objectives for this iteration of review. As such, the 2016 review provides more depth of insight to a narrower scope of focus.

Within this scope, the work stream focused on the following three objectives in order to evaluate the Board's governance practices:

- ▶ Objective 1: Review board governance practices and 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.
- ▶ Objective 2: Assess the extent to which the Board has considered the information presented by management in decision making.
- ▶ Objective 3: Assess the extent to which the Board has in place adequate systems and practices to monitor the organization's performance; and the extent to which it operates accordingly.

1.3.2 Methodology and approach

To provide a sound basis for the assessment of governance, the following assessment criteria were used. These criteria are a sub-set of the criteria used in the 2015 Review following the OCG's 2010 Review, and were selected based on relevance to the review objectives presented above.

Assessment criteria	
Area of focus	Description of criteria
Oversight and responsibilities	The extent to which the Board of Trustees has clearly defined an adequate oversight roles and responsibilities, a clear mandate to carry out specific oversight functions; and the extent to which it operates accordingly.
Independence	The extent to which the Board of Trustees has clearly established independence requirements for its members to manage real and perceived conflicts of interest; and the extent to which it operates accordingly.
Skills and knowledge	The extent to which the Board of Trustees has defined the requisite skills, knowledge, and experience the body must collectively possess to fulfill their oversight responsibilities; and the extent to which it operates accordingly.
Performance monitoring and assessment	<p>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.</p> <p>The extent to which there is an adequate process in place to assess the Board of Trustees' performance in fulfilling its oversight responsibilities.</p>

In order to support the deeper focus on the criteria noted above, case studies were used to examine two scenarios with respect to the decision making process that was followed (including the fulsomeness of the analysis and discussion), the extent to which management's input was sought and acted upon, and the expertise that the Board brought to the issue. The case studies used and discussed throughout the following sections were:

1. The 2016/17 Budget decision
2. The Long Range Facilities Plan (LRFP) process

To complete the review, the assessment team conducted three key activities to assess the current state of VSB governance against the criteria. The activities and associated materials that informed the findings and subsequent recommendations were:

- ▶ **Documentation review:** Documents that form VBE's governance framework and activities as well as previous external reviews of VBE's governance were examined including the 2010 OCG Review. This included the review of committee reports, meeting agendas, Board minutes, meeting recordings and email communications. To avoid duplication, materials and findings from the 2015 Review were used where possible. While all documentation deemed relevant was reviewed, the detailed document review was predominately focused on documents produced and processes undertaken within the last six months to ensure relevance and accuracy of the findings presented.
- ▶ **Interviews with Trustees:** Interviews were undertaken with all current VBE Trustees.
- ▶ **Leading practice and peer analysis:** Interviews with selected other Districts, the BC School Trustees Association (BCSTA) and the BC School Superintendents Association (BCSSA) were used as a source of leading practice and peer analysis.

1.4 Conclusions

Based upon the objectives and results of the review, we conclude as follows:

- ▶ **Objective 1: Review board governance practices and 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:** The Board's oversight of the district is not effective, as evidenced by its advocacy role and its inability to pass a balanced budget. It does not have in place a process to assess its skills, training and experience and fill any identified gaps with training or external expertise; and it does not fully utilize the skills that it does possess.
- ▶ **Objective 2: Assess the extent to which the Board has considered the information presented by management in decision making:** The Board does consider and rely on information presented by management for some decision making, however, not for two of the most important decisions made in the last year: the Long Range Facilities Plan and the Budget.
- ▶ **Objective 3: Assess the extent to which the Board has in place adequate systems and practices to monitor the organization's performance; and the extent to which it operates accordingly:** The Board has limited systems and practices in place to monitor the organization's performance, centred on financial information and some statistical reporting. There is no reporting against strategic or operational objectives and no performance measurement of the Superintendent or the Board itself.

1.5 Evaluation of the 2015 review recommendations

To gain a sense of progress made by the VBE since the 2015 Review, the assessment team reviewed the governance-related recommendations from 2015 to assess the extent to which they were considered and actioned. The findings of this assessment follow.

The review found that the Board considered the 2015 Special Advisor Report and its recommendations. A summary of progress against the four specific recommendations is provided in the following table.

Recommendation one: Standing committee process
<p>Board of Trustees take further steps to formalize the operations (e.g. using Robert's Rules) and structure of committee meetings with defined seating plans and speaking protocols to clearly differentiate between members of the committee, observer Board of Trustee members, and stakeholders to ensure that everyone gets an opportunity to participate in a manner appropriate to their role. This will have the added benefit of clarifying meeting outcomes, streamlining the recommendation process, and facilitating staff action items/follow up.</p> <p><i>Note: this recommendation incorporates previous recommendations from the 2010 Office of the Comptroller General Review of VBE.</i></p>
Key responses
<ul style="list-style-type: none"> ▶ Name tags have been implemented to identify who are members of the Committee, however no action has been taken on the more salient component of the recommendation related to stakeholders not sitting at the table with Trustees ▶ Robert's Rules have been formerly implemented with the assistance of a consultant providing training to all Board members
Recommendation two: Audit committee implementation
<p>Board of Trustees establish an Audit Committee with membership composed of Trustees and external financial professionals to ensure the Audit Committee has sufficient knowledge, skills, experience, and objectivity to provide oversight and make recommendations with respect to the Board's fiduciary responsibilities. A quarterly meeting schedule would minimize the additional time commitment; there is also an opportunity to mirror the structure of the Richmond School Board and its Standing Committee by combining VBE's Committees IV and V to create a People and Finance Committee with responsibilities for financial decision-making that is distinctly independent from the oversight of the Audit Committee.</p> <p>Additionally, external member terms be staggered with those of Trustees to ensure continuity and support long-term decision-making. The value of the opportunity to serve on a not-for-profit Board with community impact provides prestige and incentive for qualified professionals to volunteer for the external positions, further reducing the cost to implement an Audit Committee.</p> <p><i>Note: this recommendation incorporates previous recommendations from the 2010 Office of the Comptroller General Review of VBE.</i></p>

Key responses

- ▶ The Board has chosen not to implement an Audit Committee
- ▶ Interviews indicated Trustees were split with regards to its value. Some Trustees felt the additional expertise and an independent viewpoint (free of political ties) would prove valuable. Alternatively, some state the additional Committee would simply add another layer of complexity and time burden with the work that would be completed by this Committee already being completed through the activities of Committee V

Recommendation three: Create a new strategic plan

Board of Trustees develop and implement a new strategic plan as a priority for the current year. This plan should serve as a catalyst to develop:

- ▶ Operational plans
- ▶ A performance measurement framework
- ▶ A Board of Trustees self-assessment framework
- ▶ An enterprise risk management (ERM) program, as noted in recommendation 5 below

The formalization of these plans and frameworks will have the added benefit of clarifying Trustee roles and responsibilities between governance and operations.

Note: this recommendation incorporates previous recommendations from the 2010 Office of the Comptroller General Review of VBE (re: performance measurement framework and Board of Trustees self-assessment) and the 2015 Resource Allocation Review by PwC (re: operational plans and risk management).

Key responses

- ▶ The VBE staff have made progress in the development of a 2017/22 Strategic Plan
- ▶ As the Strategic Plan was still under development at the time of the review, it was not reviewed

Recommendation four: Create a district risk management program

Board of Trustees implement an ERM program to ensure that risks are identified and managed on a proactive basis. We advise that this program commence at the strategic level in conjunction with the development of the new strategic plan, and be cascaded into the organization as the strategic plan is operationalized.

Note: this recommendation incorporates previous recommendations from the 2015 Resource Allocation Review Update by PwC.

Key responses

- ▶ Under the direction of the Board, VSB management commenced the development of an enterprise risk management (ERM) strategy
- ▶ Following the commencement of work, the position in charge of developing the ERM strategy was terminated due to budget and resourcing constraints. Consequently, the development of the ERM plan has been suspended and the VSB continues to have no overall risk management process in place

2. Oversight

At its core, governance is the framework through which adequate oversight is enabled, and a fundamental function of the VBE is to provide this oversight role to the district. In order to meet the review objective, this section is organized according to the criteria outlined in the Methodology and Approach section:

- ▶ The extent to which the Board has clearly defined roles, responsibilities and mandate
- ▶ The extent to which it operates effectively against those roles and responsibilities

2.1 Clarity of roles, responsibilities and mandate

The roles, responsibilities and mandate of the Board of Trustees are derived from *The School Act* and further elaborated in the policy manual of the District.

The School Act identifies a key responsibility of the Board as:

113 (1) A board, by bylaw,

- (a) must adopt an annual budget on or before June 30 of each year for the next fiscal year

The *Act* further specifies that:

111 (3) ... estimated expenditures in the annual budget must not exceed estimated revenues.

The Trustee Code of Ethics from the VSB's Policy Manual provides the following additional information:

“...to bear in mind that the primary function of the Board is to establish policies by which the schools are to be administered and their educational goals to be set and that, generally, administration of the programs and conduct of school business shall be left to the Superintendent of Schools and to school and district staff”³

Based upon these two sources, it can be summarized that the **mandate** of the Board is dictated by the Act, its **role** is to establish policies for the operations of the District, but not be directly involved themselves, and one of the key **responsibilities** of the Board is to approve a balanced budget. Furthermore, since the mandate of the Board is outlined in the Act, any reading of the Board's policies must be done so while respecting it. Therefore, when the VBE Trustee code of ethics states that their primary function is to establish the policies by which the schools are to be administered, it is implicit that this must be done in the context of a balanced budget. This can be described as a stewardship role⁴.

The assessment found that the role, responsibilities and mandate of the Board is clear.

2.2 Oversight effectiveness

In order to assess effectiveness of the Board in fulfilling its role, responsibilities and mandate, the review examined whether the Board was successful in adopting a balanced budget, whether it sets policies while leaving the administration to the Superintendent and staff, and whether it undertakes both these activities in an efficient manner.

1. Passing a balanced budget

The Board of Trustees was unable to pass a balanced budget. While the root cause of this will be discussed further in the Independence section of this report, from an oversight perspective the Board is not effective.

2. Setting Policies while leaving administration to Superintendent and staff

In order to assess this point, the review team interviewed Trustees, former staff, external parties with knowledge of the VSD and reviewed overall metrics on Board and Committee meetings. Staff were not formally interviewed for this item, as they are not independent of the situation.

Qualitatively, the VSD has a reputation as being a district where the Trustees are heavily involved in the day to day activities of the District:

- ▶ There are other large and complex districts in the region which are able to draw an effective line between Trustee and staff responsibilities.

³ VSB, Policy Manual, B: School Board Governance and Operations, BBF: School Board Member Ethics. Available at: <https://www.vsb.bc.ca/district-policy/bbf-school-board-member-ethics>

⁴ Merriam-Webster defines Stewardship as “the activity or job of protecting and being responsible for something”.

- It was very clear in discussions with the BCSTA and former staff members that the Trustees engage in the business of the district.

Table 1: Superintendent and Secretary Treasurer Governance meeting summary; Feb 1 - June 30

Figure	Description
Total over time period (each)	
55	Number of evening meetings
181.5	Number of hours spent at evening meetings
3.3	Average length of evening meeting
56%	Proportion of weekday evenings with meeting scheduled*
Average per month over time period (each)	
12.2	Number of evening meetings per month*
40.3	Number of hours spent at evening meetings per month*

* Based on 4.5 month time period due to removal of Spring Break shutdown period.

The number and extent of committee meetings where the Superintendent and Secretary Treasurer are present indicates that the Board of Trustees is doing more than just setting policies and approving large decisions. It would be difficult to fill this amount of time without getting into the business of administering the district.

3. Efficiency

The amount of time invested by staff in the governance process also represents the amount of time invested by trustees in the process. There are a number of factors that contribute to this lack of efficiency in addition to the involvement in the Districts business:

- Committee attendance: It is customary at the VSB for all Trustees to attend all committee meetings, whether they are on the committee or not. While Trustee interviews identified that this was due to a lack of trust among Trustees and the desire to hear stakeholder input, in practice it results in diminishing the efficiency normally provided by a committee structure.
- Stakeholder input: Past reviews have focused on the role of stakeholders at committee meetings, including their stature at the meeting (i.e. sitting at the table) and the impact this has on a consensus driven approach. Other than the creation of nametags for committee members, this has not been addressed.

These two factors, when coupled with the fact that the Trustees frequently involve themselves in details that would normally be considered the purview of staff, contribute to the inefficiency of the oversight process. Unlike other large, urban school districts in the region, investment of time has a

negative impact on the Board's ability to exercise its core mandate and work on initiatives such as performance measurement.

Oversight Case Study: 2016/17 Budget

The 2016/17 Budget Case Study presents a scenario where the Trustees' roles of stewardship versus advocacy were conflicting, and Trustees elected to prioritize advocacy, despite it resulting in failure to meet their legislative responsibilities and mandate to pass a balanced budget.

The VSD management presented the VBE with a balanced budget, which was not approved by the Board. In addition to being in contravention of the *School Act*, the impact of this decision also challenges the ability of management to follow good governance practices and effectively administer/manage the 2016/17 budget with appropriate authority. This scenario also increases strain on the working relationship between Trustees and management, the clarity of authority and process, and the ability to dispense funding for expenditures required for the new school year. Interview feedback elaborated on these issues and the impact to the VSD:

- ▶ The School Act is clear and simple as to what is required of the Board with respect to the development of the Budget and the sequence of actions that must be followed.
- ▶ Due to the failure of the Board accepting the proposed Balanced Budget, no Bylaw was created and thus Budget amendments cannot be made; the impact of the absence of a Bylaw seriously complicates the ability of the VSD management to continue to operate as expenses that may result in a budgetary deficit are prohibited, and consequently un-anticipated expenses must be re-allocated from existing expenditures. This is seen as a significant risk to the commencement of the school year as unexpected expenses arise.
- ▶ In addition to the short term operational risk, the lack of an approved budget also negates the ability to follow the standard budgeting process and the creation of an Amended Budget, further impacting the ability to ensure all legislative and financial reporting requirements are met.
- ▶ There is a lack of clarity of the authority of the VSD management in administering the Budget.
legal information

2.3 Stakeholder representation

The Board continues to employ a consensus approach to decision-making, and considers stakeholder consultation a critical component of the governance culture that can directly impact decision-making. It is therefore critical that stakeholder representatives adequately and accurately reflect the collective opinions of the stakeholders to ensure the appropriate consideration of feedback by the Board.

Interviews indicated a lack of consensus as to whether the stakeholders who attend Committee meetings adequately represent the community, with mixed feedback both on the completeness of representation and whether all representatives were heard equally.

While there is evidence that some Trustees do use the public consultation as an opportunity to ask genuine questions to gather input and inform their decision-making, further feedback and a review of transcript recordings indicate that input from stakeholders often appears scripted with clear consistent undertone and messaging being expressed. Some Trustees stated that what appears to be solicitation of open and honest discussion and gathering of information is instead a pre-determined response to an already known question, and this is supported by analysis that demonstrated the use of leading questions being posed to specific stakeholders, with the answer directly supporting the inquiring political party's stance. This raises concern over the state of the legitimacy and true value of the discussion that occurs at open meetings.

2.4 Recommendations

Recommendation 1

The VBE to implement better practices with respect to Standing Committee and Board meeting procedures to enable the oversight structure to function effectively and efficiently. This includes implementing practices to:

- ▶ Streamline the procedures for attendance and acceptance of input from non-members of the committee, including both stakeholder representatives and non-member Trustees;
- ▶ Analyze stakeholder representation to evaluate the effectiveness of these groups in both representing the community at large and providing equal representation at meetings, and implement improvements as required

Consistent with best practices at other large districts in the region we recommend that VBE designate committee meetings as in camera, in order to depoliticize them and allow Trustees to focus on the business of providing oversight. We recommend that Stakeholder consultation be delegated to management for all but the most significant issues, with the results presented to Trustees at the relevant Committee meetings. Finally, we recommend that a question and answer period be used at the Board meetings to hear from Stakeholders.

Recommendation 2

The VBE to better document and update relevant governance policy to clarify that the role of Trustees is that of stewardship first-and-foremost. Both stewardship and advocacy should be defined within policy to ensure that there is no confusion, and a signed acknowledgement should be obtained in addition to the statutory Oath signed by Trustees at the commencement of their term.

Recommendation 3

The VBE 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.

Note that in addition to the recommendations above and in the remainder of this report, recommendations from the 2015 Review should be fully implemented.

3. Independence

Independence, in the context of this review, included an assessment of:

- ▶ Evidence of clearly established and documented independence requirements
- ▶ Political influence
- ▶ Evidence of block voting
- ▶ Consideration of information provided by management in decision making
- ▶ Adequacy of discussions and debate of the Board with regards to all decisions

Independence is an important component of Objective 1 of the review, which addresses the Board's governance practices. Good governance cannot exist in an environment where the Trustees do not fulfill their stewardship responsibilities, and stewardship responsibilities cannot be fulfilled if the Trustees are not independent of outside influences and vested interests.

3.1 Clearly established independence requirements

While the school act doesn't specifically refer to the word "Independence", it does address conflict of interest as it relates to pecuniary (financial) interest⁵. This is reinforced by the VSB's policy manual. In addition, the Trustee oath that is specified by *the School Act* and has been signed by all the Trustees goes further:

I will abide by the School Act and I will faithfully perform the duties of my office, and will not allow any private interest to influence my conduct in public matters⁶;

In this context, we interpret private interest to include political interest, reputational interest (e.g. impact on reputation of voting inconsistently with an election platform or promise), or any factor that is outside of the duties of the office (including the influence of other Trustees). Between the financial and non-financial interests specified in *the School Act*, we conclude that independence requirements are clearly documented and communicated to Trustees at the beginning of their term.

3.2 Extent to which the VBE operates independently

1. Political Influence

It is accepted that the VBE is a political board. Trustee interviews indicated that being aligned with a political party was required in order to get elected to the VBE. Trustees also indicated that being elected on a political platform creates expectations by their constituents that they will represent that

⁵ The School Act, S58 (1)

⁶ School Trustee Oath of Office Regulation http://www2.gov.bc.ca/assets/gov/education/administration/legislation-policy/legislation/schoollaw/d/bcreg_38293.pdf

platform in office. While some Trustees stated that they approach every issue and vote with an open mind, free of this influence, they do so with an advocacy mindset. It is the review team's position that allowing any political influence to affect Trustee decisions, regardless if it is at the Board Caucus level, Provincial level or as a result of support during elections by stakeholder groups represents a lack of independence and is in contravention of the *Act*.

2. Voting decisions and the existence of block voting

Block voting is defined for the purposes of this review to be a pattern of voting that takes place along political lines, rather than based upon an independent assessment of the voting decision at-hand by the Trustee. To constitute an independence issue, the Trustees would need to receive direction from an external party (their caucus, a stakeholder, other Trustees) on which way to vote on a particular issue. While difficult to prove after the fact, the review found indicators that suggest block voting does indeed occur:

- ▶ A number of trustees acknowledged that block voting occurs, although others were adamant that it did not
- ▶ A random selection of Board Meeting minutes examined from the last six months, representing 23 motions indicated:
 - ▶ 7 / 23 were unanimous (9-0)
 - ▶ 1 / 23 was carried due to a mix of Trustees which was not along political lines
 - ▶ 15 / 23 saw voting split 5 to 4; in all 15 cases, the vote was split with all four Trustees from one political party against the four from another political party, and the independent Trustee being the swing vote.

We view these results as conservative, as meeting minutes and interviews indicated the existence of occasional voting amendments with the result being motions passed unanimously even though up to that point in time, votes had been opposed: in some cases, motions showed a 4-4 voting ratio with one Trustee acting as the swing vote. Once this swing vote had been made, the Trustees in the minority would amend their vote in order to demonstrate Board consensus.

As part of the review the review team reviewed Trustee emails for evidence of block voting around key events, and found an instance where one Trustee sent a request on behalf of their caucus to the other Trustees requesting them to vote 'no' for the budget—a clear example of block voting. This is outlined below in the Budget case study.

3. Consideration of information provided by management in decision making

Information is often described as the currency of good governance.⁷ Independence requires oversight body members to utilize all relevant available information in their decision making process and conduct due diligence on the information provided to them. This would enable Trustees to address the motion

⁷ Office of the Auditor General of British Columbia (2009) *Guidelines: Information use by the Boards of public sector organizations*. British Columbia: Victoria.

or decision with an open mind, be aware of all relevant information, and not be reliant on preconceived notions or other individuals/Trustees for guidance.

Interviews with Trustees and our review of the Budget and LRFP indicated that information provided by management to the Board appears to be complete, accurate and unbiased. As noted in the Skills and Knowledge section of this report, the Trustees rely heavily on management for information to support their decisions, although they may choose not to accept their recommendations.

4. Decision exploration/discussions

The review found that Trustees are provided with ample information to support their decisions. However, the extent to which constructive discussions occur to analyze this information and develop a way forward is a matter of some debate. Trustee interviews indicated that discussions among the Board were either politically charged, occasionally sarcastic and often dysfunctional; or represented a spirited dialogue, depending on who was being interviewed. Our review of recorded transcripts supported the former, and this extends to the manner in which Trustees occasionally address staff.

Independence Case Study One: 2016/17 Budget

The review team listened to a sample of recordings of the Board meetings, focusing on those that discussed the 2016/17 budget. Within the sample, there was evidence that discussions focused on political alliances, ideologies and established perspectives rather than on the information provided to facilitate the discussion or decision. With regards to the Committee-of-the-Whole meetings, discussion and stakeholder input was one-sided, with some Trustees using the opportunity to engage in the delivery of a speech rather than a discussion.

It is our understanding that a majority of the detail and in-depth discussion of the budget transpired in Budget workshops between VSD management and Trustees. These were not recorded and thus we cannot comment on the extent of the sufficiency or objectivity of these discussions.

However, it can be stated that the budget consumed a considerable amount of time, having been discussed in at least 40 meetings in the first six months of 2016 being:

- ▶ 5 Trustee workshops (private)
- ▶ 5 Committee V and Joint Committee III/V meetings
- ▶ 11 Budget Committee meetings
- ▶ 8 Board meetings (including Committee-of-the-whole)
- ▶ 11 meetings with key stakeholders (such as DPAC, MLAs, VSB administration and support staff)

It was noted through a review of emails that one Trustee sent an email to all Trustees prior to the final Board vote on the budget, urging them to vote 'no' on behalf of their caucus. Although this occurred after a number of previous meetings, this represents both a demonstration of lack of open mindedness heading into the budget vote, a desire to influence fellow Trustees and a clear indication of block voting.

Independence Case Study Two: Long Range Facilities Plan (LRFP)

To assess the extent that Trustees gave adequate direction, thought and debate to the LRFP in guiding its development, the team reviewed whether Trustees:

- ▶ Provided direction to management on the long term vision and strategy for the District with respect to facilities;
- ▶ Reviewed and provided feedback on the draft LRFP prepared by management; and,
- ▶ Formally approved the final LRFP.

A review of the documentation and interview feedback suggests that Trustees partially completed the above activities:

Meeting discussion - VSD management spent well over 200 hours in over 100 meetings between November 2015 and May 2016 in meetings that concerned the LRFP. Of this, nearly 30% of these hours were concerned directly with providing after hours support to Trustees through workshops, update meetings, or public consultations in order to facilitate discussion and answer questions. Thus there is evidence to support the first two dot points noted above.

Approval of the LRFP -The LRFP included the consideration of school closures but stated that community consultation had not yet occurred, which resulted in the Board not approving the LRFP for submittal to the MEd (motion was passed five votes to four along party lines). However, the MOU in place required a submittal. Consequently, VSB management were required to change the title to "Interim LRFP" and submit the LRFP to the MEd to adhere to the stipulations set out in the MOU. A final LRFP is still in progress.

We find that overall, the characteristics of the decisions made in reference to the LRFP are similar to those of the 2016/17 Budget. Discussion in meetings appears to be focused on politically sensitive areas such as school closures and less focused on the materials and support presented by management.

3.3 Recommendations

Recommendation 4

The VSD amend its policies to specifically address the issues of block voting, influence (including political influence) and open-mindedness of Trustees. The VBE consult with the BCSTA to identify best practices from other large, urban districts in the region that have succeeded in removing political discourse from Board business.

Recommendation 5

The VBE comply with s72 of *The School Act* and take minutes of all proceedings of the Board. Further, to ensure transparency and follow the spirit of the *Act*, we recommend that all meetings of Trustees discussing District business follow the guidance of s72, regardless of the nature of the meeting.

4. Skills and knowledge

Ensuring the Board of Trustees collectively possess the skills and competencies to adequately fulfil their responsibilities is a key component of good governance and effective oversight. Examples of commonly required skills or expertise to provide oversight include executive leadership experience, operational and corporate management, financial literacy and acumen, risk oversight and management experience.

Ensuring that Board members have the required skills and experience becomes more difficult when oversight body members are elected representatives, as in the case of the VBE. Trustees are elected based on their platform and political affiliation, and less on their professional and business experience. Like any elected governance body, there is no mechanism to ensure that those elected to a school board collectively possess the necessary skills and experiences to provide sound governance and support them in carrying out their responsibilities. The risk of poor governance is mitigated, however, when knowledge gaps are known and measures are taken to fill them.

When discussing expertise of Trustees, it is important to be clear about what is expected of them. An accountant, engineer or lawyer on a Board is not expected to dispense professional advice (e.g. opine on a legal document, sign financial statements or certify a building plan)—instead, they are expected to bring their knowledge of their area to bear by asking questions and helping ensure that the Board is being presented with relevant information to make a decision.

Though not a requirement of the *School Act* for public school Boards, it is regarded as good practice in the public sector for a Board to have an Audit Committee, and has been recommended by the last two Special Advisor reviews. This is generally a mandatory requirement for private organizations. Audit Committees have a pivotal role to play in ensuring sound corporate governance, accountability and control. While this level of independent and financial expertise is an obvious skill set needed by a School Board, other skills that may be required on an ad hoc basis include digital/technological, human resource, legal, stakeholder engagement and capital management expertise. Consequently, good governance requires mechanisms to be in place to help ensure the Board can easily and quickly access these skills when needed, particularly if there is a skills gap amongst the members themselves.

4.1 The extent to which requisite skills, knowledge and experience are defined

The *Act* nor the VBE do not define the requisite skills, knowledge and experience that the body must collectively possess to fulfil their responsibilities. The *Act* contains a section on Trustee qualifications, however it dictates one of the key requirements as being elected, along with Citizenship and residency requirements. Interviews with Trustees indicated a general consensus that common sense and a mandate from the voters that elected them are the most important requirements for the job. This lack of a definition was a previously noted gap in the 2010 VBE Review, where the Comptroller General recommended that the VBE develop a competency based approach to orientation and training including identifying the competencies required.

4.2 The extent to which the VBE operates accordingly

As noted in the previous section, the VBE has not defined the skills, knowledge and experience it collectively requires to do its job. Without this definition the review was unable to ascertain whether it acted accordingly. Consequently, the review considered the following general criteria:

- ▶ Completion of skills identification and mapping activities
- ▶ Training completed
- ▶ Use of experts

1. Completion of skills identification and mapping

Our review indicated that no Trustee skill mapping occurs at the VBE. The Board has not adopted any process or framework to assess its collective knowledge or conduct a skills assessment, resulting in the Board being unaware of the existence of a skills gap. This issue has been highlighted previously in both the 2010 Comptroller General Review and 2015 Review, which stated that the VBE should identify competency gaps based on Trustee membership and fill those gaps through training and outside expertise in order to improve governance.

Trustee interviews indicated that while some Trustees do hold a specialization or skill, such as financial management, legal acumen or experience as an educator, it is not widely known, discussed, or utilized among the Board. Interviews indicated that attempts by Trustees to give an opinion based on their expertise are generally discounted and considered to come from their political affiliations. Trustees stated they preferred to receive expertise from an external and independent individual or from the VSD management team rather than other Trustees.

2. Trustee training

At the commencement of each Board's term, Trustees participate in an orientation program that provides practical orientation and guidance on VBE's governance structure and the roles and responsibilities of the Board and its Standing Committees. At this training session, they are also provided with documentation that enables them to consistently impart their responsibilities at Board and Committee meetings such as bylaws and VSB policies. To supplement this training session, a 'Standing Committee Orientation' package is provided to both Trustees and Standing Committee representatives at the beginning of their term. Certain trustees have also taken advantage of the orientation training provided by the BCSTA. However, there has been no formal training program beyond orientation that was determined based on a skills gap assessment.

3. No formal and consistent level of external expertise provided

While the Board does make ad hoc use of external expertise, normally in the areas of meeting protocol and legal, it is not part of a formal program designed to address their skill gaps. In addition, the Board voted to not approve the implementation of an audit committee.

As noted in the budget section of this report, an error of \$1 Million was discovered in the reported financial statements last year. An audit committee or greater board financial expertise would have presented an additional opportunity to discover this error, and would be the best forum to discuss the consequences, if any.

4.3 Recommendations

Recommendation 6

The VBE re-consider 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.

Recommendation 7

The VBE to 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

VBE should leverage resources and precedents from the BC School Trustees Association.

Recommendation 8

Notwithstanding the results of the skills assessment, the VBE establish and implement an Audit Committee of the Board, with at least one member being a financial expert with relevant experience and skills. At least one member should also be an external individual that is independent of the VBE, which could be fulfilled by the District's external auditor if the VBE has a Trustee with relevant experience and skills.

If the VBE does not have a Trustee with the relevant experience and skills, we recommend an independent, non-voting lay expert be a member of the committee in order to provide advice to the Trustees, thereby fulfilling both the independence and skills and knowledge requirements. VBE should leverage resources and precedents from the BC School Trustees Association.

5. Performance monitoring

A core objective of any Board is to monitor and assess the performance of the organization and its senior management in meeting objectives established in their strategic plan. This ability to determine whether an organization and its leadership are successful in meeting objectives is part of a larger holistic planning and performance measurement process. An organization following good practice will define what success is in the form of objectives, how they plan to achieve such objectives, and ways of defining and measuring their performance.

To assess the degree to which the VBE conducts performance monitoring and assessment, the following evaluation criteria were used:

- ▶ The extent to which the Board has in place adequate systems and practices to monitor the organization's performance, and the extent to which it operates accordingly; and,
- ▶ The extent to which there is an adequate process in place to assess the Board's performance in fulfilling its oversight responsibilities.

5.1 Systems and practices in place to monitor performance

There is currently no performance measurement framework in place which is linked to the VSD's strategic plan and ties together the objectives of the district and its success in meeting them. Furthermore, there is no framework in place to evaluate the performance of the Superintendent (in fact, the last Superintendent review was a self-assessment in 2011). As noted in the previous Special Advisor report, there is a large amount of support material available to assist Boards in this area from organizations such as the BCSTA and the Canadian School Boards Association, and there are examples available from the BCSTA where this has been done effectively in other large urban school districts in the region. The Board currently receives financial performance information as well as some statistical reporting.

Linkage of strategic planning to performance measurement

Overall, the review found that the VBE does not have a performance measurement framework and process to assess the effectiveness and efficiency of the VSD in meeting its objectives. There are occasional assessments completed on individual programs but overall, performance review activities are ad hoc and actions taken in response to review activities are inconsistent. While the VBE has an established and documented Strategic Plan, it is not used to define objectives, establish performance metrics, or measure progress. Further, the current Strategic Plan is not integrated into other district planning, monitoring, or reporting exercises.

Interview responses did indicate an acknowledgement and desire for a more comprehensive and integrated approach to performance measurement for the organisation as a whole, and it is anticipated by the majority of Trustees that the implementation of the Strategic Plan currently under development will be the catalyst for the implementation of a performance evaluation framework for the VSB. It is hoped that the future performance of the VSB will be assessed against the Plan's objectives.

5.2 Trustees' performance monitoring practices in place

Although it has been recommended in past Special Advisor reports, we found that there is no formal performance measurement framework, process, or assessment mechanism in place at the VSB to assess the overall performance of the Board, both as a whole and with respect to individual Trustees. The Board has also not performed a self-assessment of its performance in meeting the current Strategic Plan.

Trustees cited two reasons for this gap:

- ▶ Some Trustees considered that the reporting on class numbers and accomplishments of the District was adequately reflective of their performance and decision making skills and constituted a self-evaluation of the Board
- ▶ Trustees also noted that the ability to perform self-evaluations was hampered by the fact they are a political Board, and outcomes could be used for political ends rather than to improve performance.

The BCSTA assists many BC school Boards with evaluations, demonstrating that approaches and methodologies exist and are readily available.

5.3 Recommendations

Recommendation 9

The VBE ensure that the current Strategic Planning exercise includes the development of a performance measurement framework and process to enable the VSD to set objectives, establish performance expectations, create metrics, and measure and report on performance at least annually. This framework should directly tie to objectives set out in the Strategic Plan, once completed, and be an active tool for both VSD management and the Board. We recommend the VBE leverage the best practices available from the BCSTA in this area.

Recommendation 10

The VBE develop a performance measurement framework and self-assessment process to measure the performance of the Board in achieving its objectives and effectively providing oversight. This process should align to the planning and reporting cycle of the VSD's overall performance measurement framework. We recommend the VBE leverage the best practices available from the BCSTA in this area.

Recommendation 11

The VBE develop a performance measurement framework and assessment process to measure the performance of the Superintendent in achieving their objectives and fulfilling their role. This process should align to the planning and reporting cycle of the VSD's overall performance measurement framework. The framework should be developed collaboratively between the Board and Superintendent to promote transparency and open, two-way communication. We recommend the VBE leverage the best practices available from the BCSTA in this area.

6. Summary of recommendations and high-Level action plan

The table below contains recommendations and indicative timeframes to complete implementation of each recommendation. The timeframes are as follows:

- ▶ Short Term (S): up to six 6 months;
- ▶ Medium Term (M): 6 to 18 months; and
- ▶ Long Term (L): 19 months and longer.

Ref	Recommendation	Timeframe
OG1	<p>The VBE to implement better practices with respect to Standing Committee and Board meeting procedures to enable the oversight structure to function effectively and efficiently. This includes implementing practices to:</p> <ul style="list-style-type: none"> ▶ Streamline the procedures for attendance and acceptance of input from non-members of the committee, including both stakeholder representatives and non-member Trustees; ▶ Analyze stakeholder representation to evaluate the effectiveness of these groups in both representing the community at large and providing equal representation at meetings, and implement improvements as required <p>Consistent with best practices at other large districts in the region we recommend that VBE designate committee meetings as in camera, in order to depoliticize them and allow Trustees to focus on the business of providing oversight. We recommend that Stakeholder consultation be delegated to management for all but the most significant issues, with the results presented to Trustees at the relevant Committee meetings. Finally, we recommend that a question and answer period be used at the Board meetings to hear from Stakeholders.</p>	(S)
OG2	<p>The VBE to better document and update relevant governance policy to clarify that the role of Trustees is that of stewardship first-and-foremost. Both stewardship and advocacy should be defined within policy to ensure that there is no confusion, and a signed acknowledgement should be obtained in addition to the statutory Oath signed by Trustees at the commencement of their term.</p>	(S)
OG3	<p>The VBE 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.</p>	(S)

Ref	Recommendation	Timeframe
OG4	The VSD amend its policies to specifically address the issues of block voting, influence (including political influence) and open-mindedness of Trustees. The VBE consult with the BCSTA to identify best practices from other large, urban districts in the region that have succeeded in removing political discourse from Board business.	(M)
OG5	The VBE comply with s72 of <i>The School Act</i> and take minutes of all proceedings of the Board. Further, to ensure transparency and follow the spirit of the <i>Act</i> , we recommend that all meetings of Trustees discussing District business follow the guidance of s72, regardless of the nature of the meeting.	(M)
OG6	The VBE re-consider 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.	(M)
OG7	<p>The VBE to 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:</p> <ul style="list-style-type: none"> ► 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 <p>VBE should leverage resources and precedents from the BC School Trustees Association.</p>	(M)
OG8	<p>Notwithstanding the results of the skills assessment, the VBE establish and implement an Audit Committee of the Board, with at least one member being a financial expert with relevant experience and skills. At least one member should also be an external individual that is independent of the VBE, which could be fulfilled by the District's external auditor if the VBE has a Trustee with relevant experience and skills.</p> <p>If the VBE does not have a Trustee with the relevant experience and skills, we recommend an independent, non-voting lay expert be a member of the committee in order to provide advice to the Trustees, thereby fulfilling both the independence and skills and knowledge requirements. VBE should leverage resources and precedents from the BC School Trustees Association.</p>	(M)

Ref	Recommendation	Timeframe
OG9	The VBE ensure that the current Strategic Planning exercise includes the development of a performance measurement framework and process to enable the VSD to set objectives, establish performance expectations, create metrics, and measure and report on performance at least annually. This framework should directly tie to objectives set out in the Strategic Plan, once completed, and be an active tool for both VSD management and the Board. We recommend the VBE leverage the best practices available from the BCSTA in this area.	(M)
OG10	The VBE develop a performance measurement framework and self-assessment process to measure the performance of the Board in achieving its objectives and effectively providing oversight. This process should align to the planning and reporting cycle of the VSD's overall performance measurement framework. We recommend the VBE leverage the best practices available from the BCSTA in this area.	(S)
OG11	The VBE develop a performance measurement framework and assessment process to measure the performance of the Superintendent in achieving their objectives and fulfilling their role. This process should align to the planning and reporting cycle of the VSD's overall performance measurement framework. The framework should be developed collaboratively between the Board and Superintendent to promote transparency and open, two-way communication. We recommend the VBE leverage the best practices available from the BCSTA in this area.	(S)

Appendix

APPENDIX A: 2015 governance recommendations review

VSB Progress to date

The table below highlights the progress the VSB has made with regards to the VSB directed recommendations.

Ref	Recommendation	Status given by VSB	Initial VSB Response (2015)	Updated VSB Response (July 2016)
7.1 A	VSB continue to action and implement processes and controls to address previous review and audit findings, including making an action plan to prioritize response initiatives	Consider	That staff continue to review and implement the VSB Board-approved recommendations contained in the PwC and Special Advisor's reports and provide regular progress reports to the Board.	Progress has been made. Update on a few recommendations have been provided to the VSB. Staff budget proposals considered opportunities contained in both reports.
7.2	VSB make improvements in the formalization of mechanics of committee meetings	Consider	That the VSB consider a review of the VSB Standing Committee structures and processes.	No action on this recommendation.
7.3 A	VSB establish an Audit Committee with external members to improve financial oversight	Consider	That the Board consider whether it wishes to establish a mechanism for additional financial oversight/advice and if so, investigate what options would be available in that regard.	No action on this recommendation.
7.4 A	VSB develop and implement a new strategic plan, and use it to catalyze the development of operational plans, a performance measurement framework, a Board self-assessment framework, and a risk management program or ERM framework	Concur	That the VSB develop and implement a new strategic plan within the next year focusing on the period 2017-2022. This plan and process would deal with operational plans, performance measurement, the concept of trustees' self-assessment and the possibility of establishing an Enterprise Risk Management Program.	The 2017-2022 Strategic Plan development process is underway. A draft report was tabled in June 2016, and a final version is anticipated to be adopted the Fall of 2016.

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Ref	Recommendation	Status given by VSB	Initial VSB Response (2015)	Updated VSB Response (July 2016)
7.5 A	VSB implement a formal risk management process or ERM framework to improve risk management and oversight	Consider	That the Board consider investigating the benefits and costs of establishing a district risk management program.	SMT is exploring the possibilities of an ERM strategies; however, essential staff to support the program are not available as a result of administrative staff cuts implemented as part of 2016/2017 budget. Ongoing ERM strategies are being examined that can be completed without the establishment of an ERM department.

British Columbia Ministry of Education

Review of the Vancouver Board of
Education (District 39)

Annex C - 2016/2017 budget review

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1 Mandate

Ministry requirement 1: Conduct a full review of the Board's operations and governance, including an assessment of the extent to which the Board has considered the information presented by management in decision making.

Ministry requirement 2: 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.

Ministry requirement 3: Assess the extent to which the Board has in place adequate systems and practices to monitor the organization's performance; and the extent to which it operates accordingly.

2 Executive summary

2.1 Context

On July 18, 2016, the Ministry of Education ("MEd") appointed Special Advisor ("Special Advisor"), Peter Milburn, to complete a review of the Vancouver Board of Education ("VBE"). The review is as a result of the VBE's failure to balance the operating budget of the VBE on or before June 30, 2016; as required under the School Act.

The Special Advisor is supported by Ernst & Young LLP ("EY") and the review pertains to three work-stream: (1) Forensic audit, (2) Operations and Governance, and (3) 2016/17 Budget Review.

This report focuses on the 2016/17 budget review. The scope of work for this work stream is designed to address the MEd's specific requirement, which is *"Assess the District's 2016-17 budget deficit reduction strategies and consider other potential opportunities to achieve a balanced budget that would have less of an impact on classroom instruction"*.

2.2 Introduction

EY conducted the SY2016/17 budget review by analyzing various documents both prepared by the VBE and independent of the VBE, pertaining to the SY2016/17 and prior years.

This report and the analysis contained within is based on the information provided to EY on or before September 30, 2016.

EY took into consideration the findings and recommendations outlined in various reports prepared and delivered with regard to the VBE since June 2010. These reports include (i) reports commissioned by the MEd in furtherance of an assessment of the operations of the VSD; and (ii) reports commissioned by the VBE from numerous consulting and professional firms.

Among these reports, there is the EY 2015 Report, which was commissioned by the MEd to assist the VBE in balancing its budget, finding administrative efficiencies, reducing overhead, optimizing the use of capital assets, and improving educational services to students. The review was focused on the VBE,

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but EY also identified opportunities and recommendations for action by the MEd to improve its management and interaction with the VBE and all school districts. This report is in furtherance of the findings and recommendations included in the EY 2015 Report. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian dollars.

The following subsections outline the high-level findings and recommendations included in the report.

2.2.1 Review of the recommendations of the EY 2015 report

The EY 2015 Report was completed on June 8, 2015. The report presented a total of 54 recommendations pertaining to the budget related sections. Of the 54 budget related recommendations, 46 were directed to the VBE, and eight were directed to the MEd.

An official response (the “VBE Response”) to each of the recommendations addressed to the VBE was created by senior management of the Vancouver School District (“VSD”). The VBE Response has subsequently been updated as at September 14, 2016 for the purpose of this report. This report also addresses the responses by EY to the VBE Response.

VBE Recommendations - Concur: Of the 46 recommendations made to the VBE, the VBE Response identified a concurrence with 29 recommendations, with nine of these recommendations having an immediate financial impact and 20 recommendations having a long-term benefit. The majority of the recommendations with an immediate impact to which the VBE concurred with the recommendation have already been actioned on by the VBE; EY recognizes the efforts of the VBE in this regard. With regards to the 20 recommendations that have a long-term benefit, the VBE has begun preliminary discussions and indicated that they are in progress of developing an implementation plan to action the recommendations.

Recommendation #1: EY recommends that the VBE continue to implement the prior recommendations of the Special Advisor to which it concurred with the recommendation and that remain to be commenced or a work in progress.

VBE Recommendations - Consider: Of the 46 recommendations made to the VBE, the VBE Response identified it would consider 12 recommendations, with three of these recommendations having an immediate impact, with seven recommendations having a long term benefit, and two having both an immediate and sustainable long term benefit. With regards to the three recommendations that have an immediate impact, the VBE has performed significant studies and consultation with regards to their feasibility and next steps. With regards to the seven recommendations that have a longer-term benefit, the VBE has begun preliminary consultations; however, has concluded that the recommendations would require significant time before results can be realized. As a result, these recommendations having been given a lower priority given the budget shortfall and management focus for the SY2016/17, and the immediate need to address it. With regards to the two recommendations that have both an immediate impact and a longer-term benefit, the VBE has actioned upon the portions that can be realized in the short-term, and begun discussions regarding the longer-term process. Again, EY recognizes the efforts made by the VBE to action the recommendations to date.

Recommendation #2: EY wishes to highlight one of the prior recommendations of the Special Advisor in particular; being the recommendation pertaining to the establishment of a business development team. While EY recognizes the financial constraints of the VBE and the efforts made by VSD Management to mitigate the impact on the classroom, and the, likely, adverse cash flow associated with the establishment of the business development team in the near term, EY considers it essential that the VBE accelerate the establishment of the business development team to mitigate longer term classroom impact through enhanced cash flow associated with strategic alliances and partnerships.

Recommendation #3: EY commends the VBE for its efforts in focusing all available cash resources to mitigate the impact on the classroom associated with the current year budgetary constraints, EY recommends that the VBE continue to action the prior recommendations of the Special Advisor that are being considered and will have a long term impact.

VBE Recommendations - Do Not Concur: Of the 46 recommendations made to the VBE, the VBE Response identified five recommendations that the VBE “does not concur” with, with one of these recommendations that would have had an immediate impact, and four of these recommendations that would have had a long-term benefit. Almost all the recommendations that are not concurred with by the VBE do not have an explicit monetary implication; but are more related to a process improvement.

Recommendation #4: EY recommends that the VBE reconsider the prior recommendations of the EY 2015 Report to which it did not concur. For instance, the VBE should establish a guidance threshold target for the Accumulated Surpluses; however the threshold target should be based on Total (versus net) Operating Accumulated Surpluses. Surplus balances promote flexibility to absorb future year one-time costs, unforeseen expenditures, or reduced revenue due to declining enrolment.

2.2.2 SY2016/17 budget process

In accordance with the budget requirements in place, during the SY2016/17 VBE’s Management has prepared and released a series of financial documents that aid the VBE and key stakeholders in assessing the anticipated financial performance of the school district.

IPP: On January 8, 2016, the VBE published the SY2016/17 IPP, outlining an operating deficit of \$24.98M, based on an estimation performed in April 2015. The IPP are high-level estimates based on probable and hypothetical assumptions as determined by Management. The main purpose of the IPP is to serve as the input module for the Base Budget, and therefore is subject to substantial amendment as the assumptions become more certain and decisions pertaining to future school years are crystallized. When Management prepares the IPP it does not have some of the key information required to prepare the budget including, inter alia, student enrolment projections and MEd funding projections. For this reason, the IPP tends to significantly overstate the forecasted deficit. For this reason, permitting the IPP to become public leads to a misleading public perception of VBE’s financial circumstances.

Recommendation #5: EY reiterates the recommendation already included in the EY 2015 Report that the VBE not publish the IPP, which is significantly misleading for the public perception of VBE's financial circumstances. VBE should publish and disclose only the Preliminary Budget and Amended Budget to minimize the confusion about the forecasts, complying with practices of comparable school districts (including Surrey and Central Okanagan).

Preliminary budget: Among other documents, the Preliminary Budget was released by the senior management team of the VSD on June 9, 2016, outlining a shortfall of \$21.80M for the SY2016/17. The Preliminary Budget included all the adequate information and proposals necessary to address the deficit. These proposals were presented to the Board of Trustees ("Trustees") of the VBE on June 9, 2016.

The Trustees ultimately rejected these proposals on June 29, 2016. EY is advised that the reason the Trustees rejected the proposals is that in their view the proposals were not offering adequate, stable, and predictable funding to eliminate the SY2016/17 shortfalls and could potentially worsen future operations.

Notwithstanding the decision of the Trustees, as per the School Act, the Preliminary Budget is required to balance by June 30, 2016. In order to operate within the framework of a balanced budget, the VSD has been implementing the management proposals for the SY2016/17 operating budget. These actions of the VSD were necessary to prevent a cash flow crisis that would have otherwise resulted; absent a significant cash infusion from the MEd (\$21.8M) in an amount of approximately 5% of its SY2016/17 funding (\$444.8M) to the VBE.

Other budget documents: For the SY2016/17 VBE's budget process involved the compilation of certain ancillary budget documentation such as the Fiscal Framework and the Restoration Budget that burdens VBE staff unnecessarily and does not contribute to providing a clear understanding of the budget shortfall to the stakeholders. Given that these documents do not address future deficit challenges, it is not obvious what use the documents add to the stakeholders' understanding of the budget and budget process.

Recommendation #6: EY reiterates its recommendation included in the EY 2015 Report that the VBE critically review the documents created in preparation of the budget; specifically when there is no clear use of these documents (e.g. Fiscal Framework and Restoration Budget) and in order to eliminate the documents that are not necessary and useful to stakeholders.

However we recognize that certain events will trigger the need to release new documents, such as strikes or additional grant and holdback funding, which events are outside of the VBE's planning and control process and necessary for the stakeholders to gain an enhanced understanding of the budget.

Accumulated operating surplus: For the past two years and for the projected current year, the operating expenses of the VBE exceed revenues, resulting in an operating deficit. This operating deficit is balanced by drawing down the accumulated operating surplus from the prior years. Drawing down on the accumulated operating surplus is permitted for school districts, but is unsustainable and at some

point the accumulated operating surplus will fully elapse. In fact, the accumulated operating surplus for VBE for the last five years stood at its highest point in the SY2013/14 (\$27.3m); however, from SY2014/15 has significantly decreased. The elimination of the accumulated operating surplus reduces the flexibility available to the VBE to balance the future budget shortfalls and requires “real time” revenue generating and cost cutting initiatives aimed at addressing budgetary constraints. At the end of the SY2016/17 the accumulated operating surplus is projected to be \$1.1M. This will increase the difficulty of balancing the budget for SY2017/18.

2.2.3 SY2016/17 preliminary budget proposals

As aforementioned, on June 9 2016, the VBE released an updated preliminary budget proposal report, which addressed means to balance the \$21.80M shortfall, as mandated by the School Act. These updated preliminary budget proposals were the latest in a succession of three proposal reports submitted by the VBE. In each version, a significant shortfall was forecast, with proposals included to address the deficit and balance the budget.

The staff of the VSD have spent a significant amount of effort to develop these proposals, with various consultations occurring with VSD committees, Trustees, and Senior Management, where the costs and benefits of each individual proposal were carefully weighed. The budget proposals presented to balance the \$21.80M shortfall are a culmination of the combined efforts, input, and feedback from many concerned voices. The resulting proposals presented have been optimized to balance administrative reductions and classroom impact, given the available resources.

Specifically, the original SY2016/17 preliminary budget proposals were designed to address an estimated initial shortfall of \$27.26m, but following additional funding from the MEd, as well as savings realized from other measures, this shortfall finally evolved to the aforementioned \$21.80m. As each round of funding was applied to the proposals, VBE was able to reduce significantly the FTE impact, saving almost 70 employees (41% reduction of FTE impact from the first release to the final release of the proposals) and mitigate, to an extent, the impact on the classroom associated with the most severe financial proposals.

2.2.4 Revenue opportunities and operating cost efficiencies

International tuition fees: VBE’s tuition fees were increased to \$14,000/year in SY2016/17. VBE is targeting increases in international students in East-side schools. The VBE is monitoring international enrolment to ensure that it is able to accommodate in-catchment students wherever possible. International students are placed where there is capacity; however, as some schools have approached or reached capacity, the number of international students placed has been reduced or significantly limited.

Recommendation #7: EY recommends that the VBE undertake a market sounding respecting international students to determine the elasticity of demand relative to tuition pricing. While we understand the competitive nature of the environment in which the VBE competes for international students, we also recognize the significant demand that exists for placement of international students within the bounds of the VBE. With a current international student population of 1,126

students, each \$1,000 tuition increase represents an additional \$1.126 M in revenue; there is a profit optimization point between international student enrolment and tuition pricing that should be determined by the VBE.

Investment strategies for excess cash: Potential returns could be realized for the VBE's excess cash balance on deposit with the Province under the Central Deposit Program, which has ranged from \$90 to \$100M in the past two school years. For comparison purposes, EY has outlined certain possible alternative investment strategies including investing the funds with primary institutions.

Recommendation #8: EY recommends that the VBE consult with the Province to explore opportunities of achieving a greater financial return on the funds on deposit under the Central Deposit Program. We have identified an available amount of approximately \$94M (associated with long term liabilities and other capital needs) that may be invested for differing investment periods (aligned with usage needs) to achieve greater economic return to the VBE.

Operating Metrics - student to staff ratio and square feet per student ratio: VBE has the highest salaries and benefits cost per pupil (\$8,537 / pupil) in comparison to its Subset Districts. Based on the comparison outlined in the Janzen Report, the VSD has a lower student to support staff ratio for the main staffing types servicing regular enrolment. Also, the VSD has higher square footage per student than its Subset Districts, with higher levels of facilities staff to operate, maintain and manage facilities. The ability of the VSD to capture labour savings is restricted because of certain provisions of the collective agreements. As a result of the restrictions in the collective agreements, the VSD is not operating efficiently in comparison to its Subset Districts.

Recommendation #9: EY recommends the VBE benchmark its performance on a regular basis against a subset of alternative, but representative, school districts to improve operational performance and cost efficiency and achieve or adopt "best in class" performance and/or identify barriers to be addressed that prevent it from achieving such performance standard.

Collective agreements: 92% of VSD's total salaries and benefits costs in SY2016/17 are covered under the school district's 14 collective agreements. VBE is required to invest a significant amount of time and effort in managing its collective agreements compared to other school districts on account of the greater number of collective agreements in place. Certain restrictive provisions are included in the VSD's collective agreements limiting the ability of the VBE to implement labour cost efficiencies. These restrictions include (i) CUPE 15, guaranteed employment and permanent substitutes; (ii) CUPE 407, minimum staffing level; (iii) IUOE 963, building engineers are staffed to square footage; and (iv) technological change provisions in each of the collective agreements. It is clear that opportunities for labor savings have been frustrated because of these restrictive provisions contributing to VSD's relatively higher operating cost per pupil.

Recommendation #10: EY recommends that the VBE immediately commence a review of the 14 collective agreements (other school districts in the Province are typically subject to no greater than three collective agreements, and the vast majority two collective agreements) to which it is subject and that are constraining the ability of the VBE to realize necessary labour cost savings available to other school districts. In furtherance of this recommendation, we suggest that the VBE engage in a detailed consultative process with the Public Sector Employers' Council (PSEC) and the affected unions to identify opportunities for better service alignment and to consider the alternatives 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.

Labour saving opportunity: Having regard to the restrictions in the collective agreement, EY has identified a labour saving opportunity related to the grounds staff covered under the CUPE 407 collective agreement. It is understood from the VBE that the VSD does not require the full 101 FTE mandated by the CUPE 407 (i.e. grounds staff) collective agreement for the entire year. The VBE has the opportunity to develop service agreements to redeploy underutilized staff with other public sector agencies. The Province would then provide the VSD with a labour cost recovery for the staff deployed under the service agreements. The number of people that could be utilized in this capacity is roughly 30 FTE's for half a year (15 FTE for the entire year) which corresponds to a potential annual saving of \$870,000. The development of the service agreements would require cooperation from the unions at the service receiving organizations and may require some creativity to structure a solution that works for all parties.

Recommendation #11: EY recommends that the VBE commence discussions with the Province, to potentially develop a service agreement which may better utilize 30 FTE staff from CUPE 407 for half a year (based on VBE's Management estimates). Through discussion with Management of the VBE, it is understood that they do not require the full 101 FTE mandated by the CUPE 407 (i.e. grounds staff) collective agreement for the entire year.

2.2.5 Long range facilities plan

The Long Range Facilities Plan ("LRFP"), approved by the VBE on May 24, 2016, serves as the guiding framework for facility planning for the next 14 years (i.e. from 2016 to 2030). The LRFP has become the platform to assist the VBE in achieving a targeted capacity utilization and in completing the Seismic Mitigation Plan ("SMP") by 2030. The LRFP adopted numerous of the principles outlined in the EY 2015 Report.

Following the release of the LRFP, on June 20, 2016, the VBE released a press release, identifying a preliminary list of 12 schools marked for closure. Detailed reports describing the 12 potential school closures were released on September 15, 2016; on September 21, 2016, following an information meeting of the Trustees, Britannia Secondary School was removed from this list.

On September 26, 2016, the Trustees voted that the 11 schools identified should be considered for further public consultation and potential closure. For these schools, broad consultation with the school

community will occur during October and November 2016 and a final vote on the closure of the 11 schools by the Trustees will occur in December 2016.

Facilities conditions: The average of the VSD's school buildings is approximately 74 years, with 51 schools that are more than 80 years old. Older schools have higher maintenance costs, and Vancouver schools are amongst the oldest in BC. The VBE budget cannot accommodate maintenance costs, particularly with funding in the SY2016/17, and as a result, annual deferred maintenance has steadily been increasing year after year. Deferred maintenance costs for Vancouver schools are significantly greater than other larger school districts in the Province. Furthermore, the VBE has been especially slow in comparison to the other districts in progressing the SMP, with 69 schools that still require upgrading (only 20 upgrades completed so far).

Recommendation #12: EY recommends the VBE engage with the MEd to maximize the utility of invested capital associated with the SMP to sustain the economic life of the school facilities. This engagement would include coordination of deferred maintenance undertakings and/or alternative means of achieving an acceptable economic outcome when considering the cost of the SMP and deferred maintenance associated with an individual school facility relative to the schools replacement cost. Please refer to the School Closure Supplemental Report for further discussion.

Capacity utilization strategy: Current capacity utilization of the VSD is only 84.7%, with significant discrepancy between the West-side and the East-side schools. The VBE is well aware of the challenges impacting the capacity utilization from now to 2030 and the LRFP strategies address these issues (such as right-sizing, new schools and school closures). The VBE also recognizes that the closure of the 11 proposed schools in SY2017/18 leaves the VBE at 89.3 % capacity utilization and therefore a second round of school closures will be required (approximately 3,439 seats to be closed by 2025) in order to reach a higher capacity utilization.

On September 21, 2016, the BC government released a press release reporting a decision to remove the utilization targets for building and upgrading schools, although districts must still find ways to justify the need for new, expanded or seismically upgraded schools. The press release also indicated that the BC government will look at each school on a case-by-case basis. While the press release is specific to new, expanded and upgrading schools, its meaning may suggest permitting the operation of existing schools at less than 95% utilization, considered on a case-by-case basis. While this may seem permissive, EY considers the principle of operating schools at or near full capacity central to achieving operating cost effectiveness and directing public funds to the benefit of the students, not excess facility maintenance.

Recommendation #13: EY recommends the VBE commit to a systemic asset rationalization approach aimed at capacity rationalization to a target utilization, with an annual review. It is noted that the proposed LRFP rationalization would increase the effective utilization of the VBE to 91.7% immediately thereafter. It is further noted that utilization within the VBE will, likely, continue to erode between today and 2030, arising from the addition of a planned 3,070 seats over the next 15 years and a flat or near flat enrolment projection throughout the forecast period. Absent other alterations to supply and demand, the proposed closures of the 11 schools will cause utilization to

improve to approximately 89.3%, therefore a second round of school closures will be required, which is provided for in the LRFP (approximately 3,439 seats to be closed by 2025). Please refer to the School Closure Supplemental Report for further discussion.

Surplus assets: The VBE currently has surplus assets that are non-essential and not currently required for educational purposes. These surplus assets include, *inter alia*, (i) Vacant School Properties, (ii) Non-School Properties, (iii) Surplus School Lands, and (iv) Kingsgate Mall. The VBE has an opportunity to optimize the return on certain properties, which could result in significant revenue generation and supplement funding available to the VBE.

Recommendation #14: EY recommends that the VBE seek means of maximizing the value attributable to its asset rationalization program. The maximization approach would include: (i) a strategic review of the real estate assets by a qualified professional having regard to 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. Please refer to the School Closure Supplemental Report for further discussion.

Vacant school properties: The VBE vacant school properties are related to the unused school annexes (of which Maquinna Annex is already closed and Henderson Annex, and Laurier Annex will be closed in 2017) and to the 11 proposed school closures expected in SY2017/18. To realize the highest value for these properties (absent a disposition of the associated real estate), EY has considered the leasing potential unrestricted by the current prohibition of leasing to independent schools. EY estimates that the leasing opportunity could result in up to \$5.2M of lease revenue; if all sites were to be rented out. It is important to note that on June 15, 2016, the VBE resolved that leasing of school space is restricted away from independent schools.

Recommendation #15: EY recommends that the VBE engage 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 following a final determination of the facilities disposition by the Trustees. The timing of the engagement of the real estate professionals must be aligned with the staggered period to which the facilities will become available for alternative use following the facility's hosting responsibility as swing space. Please refer to the School Closure Supplemental Report for further discussion.

Recommendation #16: EY recommends that the VBE review all policies approved by the Board that would limit the ability of the VBE to achieve proceed generation and revenue opportunities associated with the foregoing assets. Specifically, this would include a review of the June 15, 2016 policy limiting the VBE to lease existing surplus assets to other private education institutions. Please refer to the School Closure Supplemental Report for further discussion.

Surplus school lands: The VBE has identified that certain portions of school grounds could be used to generate capital and additional revenue. Specifically, there are 15 properties within the VBE school

portfolio that could potentially be subdivided and sold or leased for alternative purposes. Studies are currently underway to determine potential opportunities for portions of school sites to be developed or sold without impacting on the operation of the school. A master plan for land usage is under progress and will be presented to the VBE in early 2017.

Recommendation #17: EY recommends the VBE continue its efforts, and accelerate same where possible, to identify surplus lands associated with existing and operating school facilities that may be subdivided for alternative use, resulting in the monetization of value for the VBE and the benefit of an alternative asset for the community at large.

Kingsgate Mall: Kingsgate Mall is a development owned by the Beedie Group, which is built on land owned by the VBE. The property is situated at the juncture of East Broadway and Kingsway and is currently zoned as C3A. The VBE entered into a long term lease in 1972 and this lease was assigned to the Beedie Group in 2005. If all of the existing renewal terms are exercised, the residual duration of the agreement is 55 years. As a result of the budgetary pressures, and need for additional funding, the VBE commissioned studies for potential options to monetize the value of the Kingsgate Mall. These studies revealed that there is a potential for higher rental revenue than what is currently being generated for the Kingsgate Mall. The site is also situated in a prime real estate area and would have significant value if it was to be marketed for sale and redeveloped as a mixed use site (residential and commercial uses). Based on a potential redevelopment strategy which would have a commercial and a residential component, EY estimated that the gross value of the real estate associated with the Kingsgate Mall could exceed \$120M. The estimated value does not take into consideration transaction costs and closing costs which may be required. Any negotiations regarding the sale of the Kingsgate Mall site will require public consultation and input.

Recommendation #18: EY recommends that the VBE engage with the Beedie Group to develop an alternative approach to the lands to realize the underlying market value associated therewith, which we estimate at an amount not less than \$120M. The estimated value does not take into consideration transaction costs and closing costs which may be required.

Recommendation #19: EY recommends that the VBE enter into discussions with the MEd to achieve an agreement that could allow the VBE to achieve early crystallization of value and an alternative income stream associated with the Kingsgate Mall; to assist with rectifying its on-going budgetary constraints.

2.2.6 SY2017/18 projections

The challenge for the next fiscal year SY2017/18 will be to balance the preliminary budget, which is currently projected to be a shortfall of \$14.90M. The accumulated surplus balance is projected to be \$1.1M by the end of SY2016/17. The accumulated surplus remaining will not be sufficient to fund this projected shortfall and the VBE will have to look to alternative means to table a balanced budget. The VBE has identified potential considerations to mitigate the size of the deficit forecasted, specifically (i)

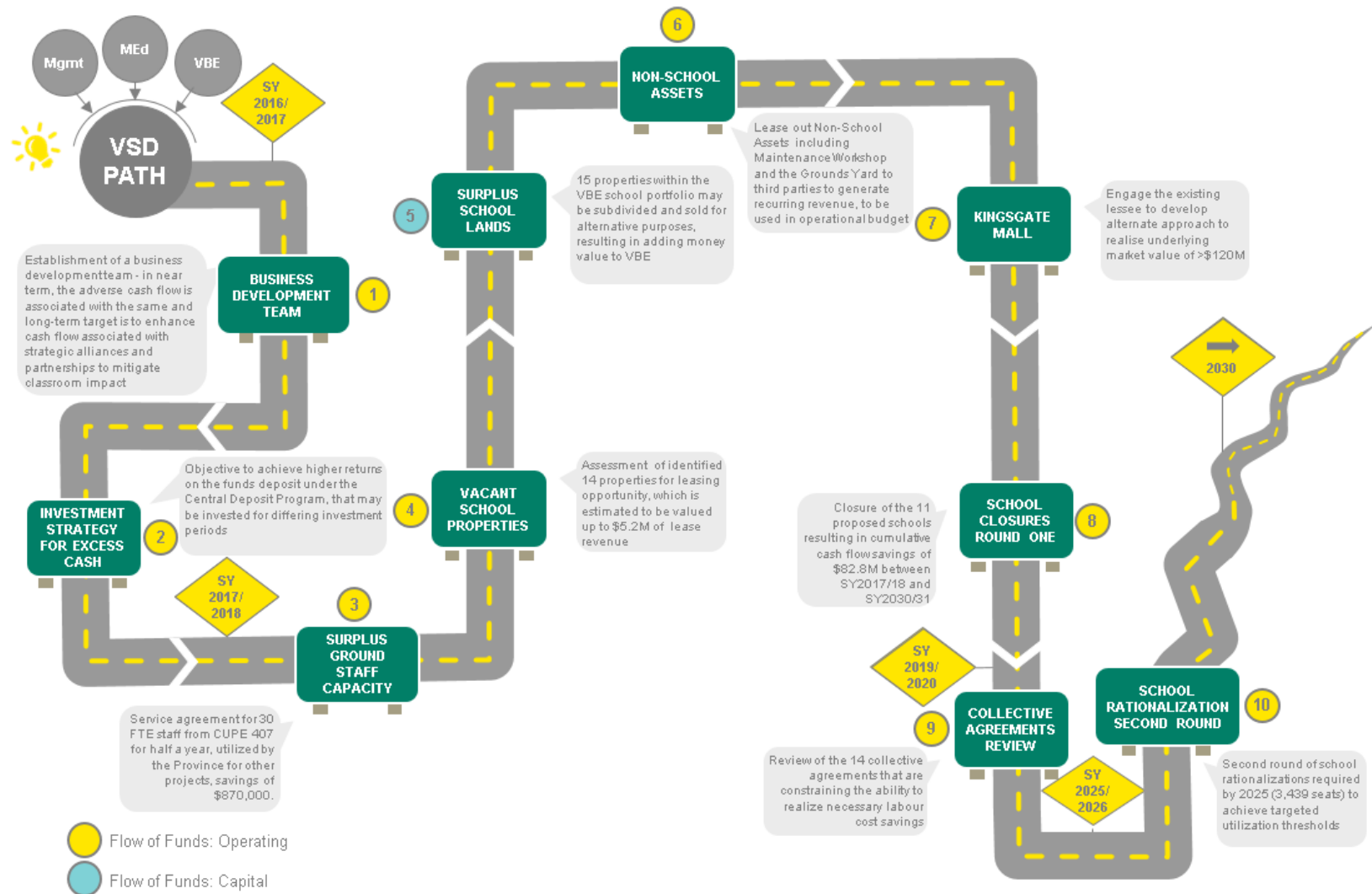
savings as a result of the proposed school closures, (ii) potential rental of closed buildings and other assets, (iii) cuts avoided in SY2016/17 that the VBE would likely be required to reinstate, and (iv) certain revenues and costs opportunities identified by EY. Each of these considerations has key risks and opportunities that could have a material impact on the projected shortfall and the classroom.

2.2.7 VSD path to sustainability

A path to financial sustainability of the VSD over the longer term, is the primary goal of all stakeholders. In order to achieve this desired position, Management, the VBE, MEd and other stakeholders will be required to work in a cohesive manner that will require following a defined path to success. This path will include a number of actionable items that must be vigorously pursued in the coming years.

The timeline proposed illustrates the main actionable items recommended to the VBE, identified by EY in other areas of this report.

This path to sustainability is only the beginning, with both creativity and determination being the principle attributes to be embraced in identification of opportunities. It is not acceptable to fail in the development of a sustainable financial path over a longer term as the critical stakeholders, the students, are grading the VBE on their success.



FOR ADVICE TO MINISTER - STRICTLY CONFIDENTIAL

Introduction

3 Introduction

3.1. Context

On July 18, 2016, the Ministry of Education (“MEd”) appointed Special Advisor (“Special Advisor”), Peter Milburn, to complete a review of the Vancouver Board of Education (“VBE”). The review is as a result of the VBE’s failure to balance the operating budget of the VBE on or before June 30, 2016; as required under the School Act. . All of the other 59 school districts in Province of British Columbia (“Province”) passed balanced budgets by the end of June 2016.

The purpose of the review is to:

- ▶ 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 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; and
- ▶ Assess the district’s 2016-17 budget deficit reduction strategies and consider other potential opportunities to achieve a balanced budget that would have less of an impact on classroom instruction.

The Special Advisor is supported by Ernst & Young LLP (“EY”). The review contained in this report is divided into the following three work-streams:

1. Forensic audit;
2. Operations and governance; and
3. 2016/17 budget review.

This section of the report focuses on the 2016/17 budget review.

3.1.1. Work stream scope and objectives

The scope of work is designed to address the MEd’s specific requirement, which is:

Assess the District’s 2016-17 budget deficit reduction strategies and consider other potential opportunities to achieve a balanced budget that would have less of an impact on classroom instruction.

EY has designed the scope of work to meet the MEd’s requirement, and to provide additional background, analysis, and recommendations as necessary to provide insight into the situation. The analysis and recommendations are structured under the following sub-headings.

Review of the Recommendations of the 2015 VBE Special Advisor’s Report:

The first section of this work stream focuses on a review of EY's recommendations from the 2015 EY report titled "Report on the Special Advisor's Review of the Vancouver Board of Education (District 39)" and dated June 18, 2015 (defined as the "EY 2015 Report"), specifically, those that pertain to budget development and forecasting, accumulated surpluses and deficits, admin, support and overhead efficiencies, and capital asset management.

There are 54 recommendations in total related to the above mentioned sections, and they were either directed at the VBE or the MEd. EY assessed whether the MEd or VBE concurred, considered or did not concur with the recommendation, the current progress with respect to the recommendations and the rationale for the rejected recommendations.

SY2016/17 budget process:

This section focuses on the overview of the budget process as it pertains specifically to the school year 2016/17 budget ("SY2016/17"), and the events that led up to the budget deficit of \$21.80M, which was ultimately not accepted by the VBE, and was the impetus for this proposed review. A detailed analysis of the overall budget development and forecasting process formed part of the EY 2015 Report and is not repeated in this report.

SY2016/17 preliminary budget proposals:

This section details the budget proposals of the Vancouver School District ("VSD") to balance the \$21.80M shortfall. EY reviewed the proposals presented, and analyzed the impact on classroom instruction. For each proposal that has been designated as having a significant impact on student teaching and learning (level 3 and level 4 proposals), EY has done a deeper dive into each of the proposals, including, inter alia:

- ▶ investigated the background of the proposal;
- ▶ the parties involved in making the decision;
- ▶ the evolution of the proposal;
- ▶ the method of calculation; and
- ▶ the duration of the proposal, as ongoing or one-time.

Revenue opportunities and operating cost efficiencies:

This section outlines EY's analysis of how the VSD performs compared to its neighbouring districts. This analysis provides insight into the potential inefficiencies of the VSD and the reasons for these inefficiencies.

EY identified opportunities to reduce costs and inefficiencies, as well as opportunities to increase revenue. This section specifically focuses on the cost savings and inefficiencies related to implementation of labour cost rationalization resulting from the collective bargaining agreements governing the majority of the VSD staff, cost recovery of labour associated with the outsourcing of specific unionized workers, revenue opportunities associated with the use of funds on deposit with the Province, and other miscellaneous sources of revenue.

Long range facilities plan and capital asset management:

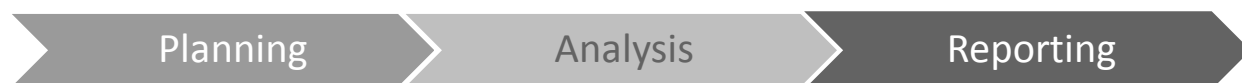
This section of the work stream reviews the recently developed VSD Long Range Facilities Plan ("LRFP"). Specifically this sections outlines:

- ▶ an overview of the main assumptions of the LRFP and whether these assumptions are aligned to the EY 2015 Report;
- ▶ the review of the main aspects related to the proposed schools closures in terms of timing of implementation, annual costs savings, impact on long term capacity and impact on deferred maintenance costs and seismic upgrade requirements (including the requirement for short-term swing space to complete the seismic upgrades); and
- ▶ the review of multiple capital asset types including vacant school properties and annexes, non-school assets, surplus school lands, and the Kingsgate Mall property.

SY2017/2018 projections

The final section of the work stream analyzes the projected shortfall of \$14.90M for the next school year, 2017/2018. This section talks about the deficit remaining after taking into account potential cost savings through the proposed school closures, and discusses which previously removed budget cuts in 2016/2017 would potentially could be reinstated. This section also includes potential risks to the shortfall and mitigation factors.

3.1.2. Methodology and approach



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

Planning: During the planning phase, we obtained the relevant documents and financial data pertaining to our scope of work, and reviewed the information available addressing our objectives. We reviewed supplementary data and information provided by the VBE, as necessary.

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

- ▶ **In-depth documentation review:** VBE budget related documents and publications, audited and unaudited financial statements, various budget documents for SY2016/17 and prior years, LRFP and other documents related to capital assets and utilization, and third party produced documents that provide insight into the operations of the VSD, including its cost efficiency and operating effectiveness. Appendix A details a complete list of documentation reviewed.
- ▶ **Analytical review of data:** Analyzed financial data provided by the VBE, MEd, and sourced from third parties related to the scope of the review.
- ▶ **Interviews with key stakeholders:** Conducted interviews and interacted with key members of VBE's management team, including the Superintendent, Director of Finance, Secretary Treasurer, and various senior financial analysts and budgeting team members. Appendix B details the complete list of interviews.

Reporting: Findings and observations were presented both to the MEd and the VBE. The findings and recommendations were reviewed with representatives from the VSD, and ultimately formed the findings and recommendations outlined in this report.

3.1.3. Prior external reports

Since June 2010 various reports were prepared and delivered with regard to the VBE. These reports include:

- ▶ Reports commissioned by the Province in furtherance of an assessment of the operations of the VSD; and
- ▶ Reports commissioned by the VBE from numerous consulting and professional firms.

These reports include, *inter alia*:

1. 2010 - Office of the Comptroller General Report

This report included findings mainly focused on the review of VBE's capital asset planning approach. The Comptroller General found that the VBE was good at short-term planning but poor at long-range planning. The Comptroller General noted that the VBE had no integrated strategic plan and no formal long term capital plan. The Comptroller General found that VBE struggled to address competing priorities with respect to seismic upgrades, facilities management, projected enrolment and capacity forecasting. As a result of this report, the VBE explored various opportunities and settled on the creation of the Vancouver Project Office, which was tasked with the planning and completion of all of the District's seismic upgrades. A Long Range Facilities Plan was also commissioned, this plan was submitted on May 24, 2016.

After the release of the Office of the Comptroller General Report, in October 2010, a Vancouver Board of Education Administrative Report was prepared titled, "Schools Considered for Potential Closure". This document identified 11 schools that could potentially be closed; five of the schools were advanced for public consultation and six schools were removed from the list for potential closure, as these schools did not meet certain factors to be considered for closure (these factors are detailed in the LRFP section).

Appendix C of this report details an estimation of the potential savings which could have been realized, had the five schools that advanced to public consultation been closed. Based on this estimation, the cumulative savings from 2011 to 2016 for the closure of these five schools (not accounting for the time value of money or inflation) would have been in the range of \$11.6M (i.e. \$1.9M per year).

2. 2011 - Coriolis Consulting Corporation ("Coriolis") report

This report was commissioned to undertake a comprehensive assessment of the District's high seismic risk schools. The report provided VBE with comprehensive information on factors including educational fit, heritage, projected enrolment of the schools, capacity issues, and aimed to ultimately assist VBE in developing a long term capital plan to complete its remaining seismic upgrades in a timely and efficient manner.

The report focused on 48 schools (from an initial list of 60) that were at the greatest seismic risk but had not yet reached the stage of detailed feasibility studies, project definition reports, or design. The VBE used the Coriolis report to shape its priorities in subsequent facilities plans, which were rolled into the future capital plans.

3. 2012 - Resource allocation review by PwC, updated in 2015

The report from PwC was initially focused on fiscal year 2012; it was subsequently updated in 2015. The VBE engaged PwC to conduct a resource allocation review. PwC was tasked with providing an examination of services and identifying opportunities for increased cost effectiveness, cost efficiency, and opportunities for additional revenue to address the budgeted shortfall. PwC focused on short-term solutions, long term recommendations, and strategic initiatives. An update was provided in regards to this report in 2015 by PwC, providing additional recommendations and commentary on the proposed opportunities.

4. 2012, 2013, 2014 - Services delivery transformation reports by Deloitte

Deloitte was commissioned to create reports focusing on cost saving and shared cost services opportunities in relation to procurement, transportation, facilities, IT, HR, Finance and Legal. The purpose was to identify opportunities that could be combined to save administrative costs and improve service delivery.

5. EY 2015 report

On March 12, 2015, the MEd appointed EY as the Special Advisor to assist the VBE in balancing its budget, finding administrative efficiencies, reducing overhead, optimizing the use of capital assets, and improving educational services to students. The review was commissioned as a result of the significant differences identified in the past 10 years between the VBE's forecasted deficits in the Amended Budget, and the actual surpluses achieved. The MEd was also concerned with the growing accumulated operating surplus, which at June 2014 was \$27.3M.

The review was focused on the VBE, but EY also identified opportunities and recommendations for action by the MEd to improve its management and interaction with the VBE and all school districts. Where appropriate, EY further identified recommendations for the larger provincial education system. The EY 2015 Report is described in greater detail above.

Review of the recommendations of the 2015 VBE Special Advisor Report

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4 Review of the recommendations of the 2015 VBE Special Advisor Report

4.1 Introduction

On June 8, 2015 EY completed the EY 2015 Report. The report presented a total of 54 recommendations pertaining to the budget related sections and nine recommendations related to the Board Governance section.

The majority of these recommendations were addressed to the VBE, and a portion of these recommendations were directed to the MEd.

The recommendations pertaining to the budget related sections were divided in the following subsections:

1. Budget Development and Forecasting (Section 3);
2. Accumulated Surpluses and Deficits (Section 4);
3. Administrative, Support, and Overhead Efficiencies (Section 5); and
4. Capital Asset Management (Section 6).

An official response to each of the recommendations addressed to the VBE was created by senior management of the VSD titled "Report on the Special Advisor's Review of the VBE" (the "VBE Response"), and at the public meeting held on November 23rd, 2015, the VBE approved this document.

The VBE Response has been characterized into three categories:

- ▶ Concur - Meaning, the VBE is in agreement with the recommendation;
- ▶ Consider - Meaning, The VBE are prepared to give serious consideration to the recommendation; and
- ▶ Do Not Concur - Meaning, the VBE are not in agreement with the recommendation.

The VBE Response has subsequently been updated as at September 14, 2016 for the purpose of this report, and the results have been communicated to EY. This report also addresses the responses by EY to the VBE Response.

Appendix D of this report includes a summary of all of the recommendations, with commentary on the progress, analysis, and viability of each recommendation, including EY response to the VBE Response.

4.2 Summary of the recommendations

In the paragraphs below, EY has identified specific examples of recommendations which the VBE concurred with, is considering, or does not concur with.

4.2.1 VBE recommendations

The table below details the results of the VBE's review of the recommendations, including the impact and time frame wherever possible.

Figure 1

Breakdown of VBE recommendations			
Decision	#	Time Frame	#
Concur	29	Immediate Impact	13
Consider	12	Long Term Benefit	31
Do Not Concur	5	Both	2
Total recommendations	46	Total recommendations	46

Source: VBE Management and budget documents

VBE Recommendations - Concur

Of the 29 recommendations that the VBE concurred with, 9 have an immediate impact and 20 have a long-term benefit.

With regards to the 9 recommendations that have an immediate impact, the majority of them have already been actioned on by the VBE. For example:

- ▶ Recommendation 5.2 - VBE explore increasing summer school enrolment through offering specialized interest courses and/or marketing to students in districts without summer school programs.
 - ▶ The VBE has completed this recommendation and expanded their summer school program offering for 2016. The financial impact is an estimated \$500,000 of additional revenue in the SY2016/17.
- ▶ Recommendation 5.3 - VBE continue to explore options to market underutilized schools in the East-side to international students.
 - ▶ The VBE is continuing to investigate and implement opportunities for international students to be encouraged to choose East-side Vancouver schools. The VBE has been able to identify an increase of 100 students in total for the SY2016/17, for a net financial gain of \$700,000.

With regards to the 20 recommendations that have a long-term benefit, the VBE has begun preliminary discussions and indicates that they are in progress. For example:

- ▶ Recommendation 6.13 - VBE to conduct a thorough review of the current annual net cost savings related to a reduction in excess surplus capacity to support decisions on capacity rationalization. The review should include a study of the relationship of the physical space to the incremental cost of education and include scenario modeling.

- ▶ The VBE has performed extensive studies to analyze the potential savings associated with school closure, as part of the LRFP. EY has analyzed in detail the annual net cost savings related to a reduction in excess surplus capacity in the section of this report pertaining to the LRFP.
- ▶ Recommendation 6.27 - VBE assess opportunities to avoid SMP projects in its capacity rationalization criteria.
- ▶ The LRFP and school closure process take into consideration the ability to avoid SMP and deferred maintenance costs on the schools proposed to be closed.

Recommendation #1: VBE should continue to implement the prior recommendations of the Special Advisor where it concurred with the recommendation and that remains to be commenced or is currently a work in progress.

VBE Recommendations - Consider

Of the 12 recommendations that the VBE noted as “to consider”, 3 have an immediate impact, 7 have a long term benefit, and 2 have both.

With regards to the 3 recommendations that have an immediate impact, the VBE has performed significant studies and consultation with regards to their feasibility and next steps. For example:

- ▶ Recommendation 5.7 - VBE explore increasing rental and lease revenues through creating lease space for commercial use or rental to compatible tenants.
 - ▶ The VBE is in the process of reviewing the market value of certain school properties (i.e. Maquinna, Laurier, and Henderson Annexes), as well as non-school sites (i.e. Kingsgate Mall). The VBE has quantified a possible increase in rental income of \$650,000 and has included this additional income as part of the preliminary budget proposals to balance the budget shortfall in SY2016/17.

With regards to the 7 recommendations that have a longer-term benefit, the VBE has begun preliminary consultations; however, has concluded that the recommendations would require significant time before results can be realized. As a result, these recommendations have been given a lower priority given the budget shortfall and management focus for the SY2016/17 school year, and the immediate need to address it. For example:

- ▶ Recommendation 5.6 - VBE explore increasing miscellaneous revenue through constituting of a business development team. The team could generate opportunities such as sale of necessities, providing ATMs on school properties, partnerships and sponsorships with organizations.
 - ▶ The business development lead role was eliminated in SY2016/17 due to the budget constraints. The VBE has contemplated the cost and benefits of establishing a new business development team, and concluded that at this point in time, establishing one would not be feasible because in the VBE’s view the benefits would be more long-term in nature and would requires significant time and financial investment to materialize viable solutions.
 - ▶ EY recognizes that it is likely that the first two years of the business development team will be spent on generating leads and relationships and will be cash flow negative; however, additional

revenues are likely to be achieved after the first two years and the return on invested capital is expected to be significant.

With regards to the 2 recommendations that have both an immediate impact and a longer-term benefit, the VBE has actioned upon the portions that can be realized in the short-term, and begun discussions regarding the longer-term process. For example:

- ▶ Recommendation 6.14 - VBE immediately engage a real estate professional to conduct a market study and prepare a valuation of its priority K-12 lands, and K12 capacity rationalized lands (where anticipated), to assist in a scenario planning process, within a six month timeline.
- ▶ The VBE has engaged several well-known and respected real estate professional firms to undertake market studies for many of their properties. The purpose of the studies was to identify potential lease revenue, and the estimated market value on some of their surplus lands.

Recommendation #2: EY wishes to highlight one of the prior recommendations of the Special Advisor in particular the recommendation pertaining to the establishment of a business development team. While EY recognizes the financial constraints of the VBE and the efforts made by VSD Management to mitigate the impact on the classroom, and the, likely, adverse cash flow associated with the establishment of the business development team in the near term, EY considers it essential that the VBE accelerate the establishment of the business development team to mitigate longer term classroom impact through enhanced cash flow associated with strategic alliances and partnerships.

Recommendation #3: EY commends the VBE for its efforts in focusing all available cash resources to mitigate the impact on the classroom associated with the current year budgetary constraints, EY recommends that the VBE continue to action the prior recommendations of the Special Advisor that are being considered and will have a long term impact.

VBE Recommendations - Do Not Concur

Of the 5 recommendations that the VBE “does not concur” with, 1 would have had an immediate impact, and 4 would have had a long-term benefit. It is important to note that almost all the recommendations that are not concurred with by the VBE do not have an explicit monetary implication; but are more related to a process improvement.

With regards to the recommendation that would have had an immediate impact, the VBE disagrees for the following reasons:

- ▶ Recommendation 4.3 - The VBE establishes a guidance threshold target for Net Accumulated Surpluses. EY is of the view that a threshold target for Net Accumulated Surpluses of 2% to 3% of VBE operating expenses would be reasonable.
- ▶ The VBE disagrees with this recommendation and will not impose an arbitrary threshold target for the Net Accumulated Surplus. However, the district will continue to carefully monitor the level and composition of any Net Accumulated Surplus, and does not expect there to be a significant balance given that the majority of the surplus has been used to balance the 2016/17 budget.

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- ▶ EY reiterates the recommendation that the Vancouver School Board should establish a guidance threshold target for the Accumulated Surpluses; however the threshold target should be based on Total (versus net) Operating Accumulated Surpluses. Prior year surpluses promote flexibility to absorb future year one-time costs, unforeseen expenditures, or reduced revenue due to declining enrolment.
- ▶ However, for SY2016/17 this is expected to be a non-issue as when the EY 2015 Report was released, the Net Operating Accumulated Surplus as a percentage of operating expenses was higher than the reasonable range of 2%-3% (i.e. 3.7% in SY2013/14) but after SY2013/14, VBE's Accumulated Operating Surplus has gradually reduced and for SY2016/17 the accumulated surplus is projected to be close to nil. The impact of not having an Accumulated Operating Surplus available to offset SY2017/18 budgetary shortfalls is that it will reduce the flexibility available to the VBE to balance the budget and require "real time" revenue generating and cost cutting initiatives aimed at addressing the budget shortfall.

With regards to the 4 recommendation that would have had a longer-term benefit, the VBE disagrees for the following reasons:

- ▶ Recommendation 6.20 - VBE should undertake the school closure process simultaneously for multiple schools identified in the Preliminary List
 - ▶ The VBE does not concur with this recommendation, as school closures are complex and may have different timings. The LRFP analyzes the utilization of a closed school as swing space, and the timing of when each school may be utilized depends on the seismic mitigation and deferred maintenance schedules of those respective schools.
 - ▶ EY recognizes that school closures are complex and challenging. However, EY reiterates the importance of achieving an accelerated time frame with regards to the school closures in order to achieve costs savings and to address the surplus capacity in the VSD.

Recommendation #4: VBE should reconsider the prior recommendations of the EY 2015 Report to which it did not concur. For instance, the VBE should establish a guidance threshold target for the Accumulated Surpluses; however the threshold target should be based on Total (versus net) Operating Accumulated Surpluses. Surplus balances promote flexibility to absorb future year one-time costs, unforeseen expenditures, or reduced revenue due to declining enrolment.

As aforementioned, Appendix D of this report includes a summary of all of the recommendations addressed to the VBE.

SY2016/17 budget process

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5 SY2016/17 budget process

5.1 SY2016/17 budget process

The EY 2015 Report provides an in depth discussion of the VBE's process for budget development and forecasting. In this section of the report, the discussion focuses specifically on the process as it pertains to the 2016/17 school year ("SY2016/17").

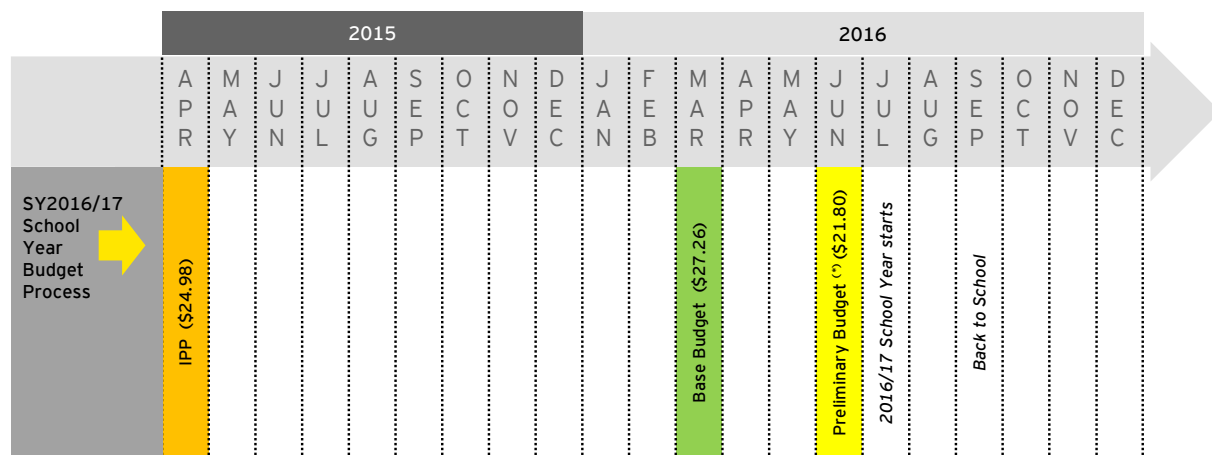
In general, VBE's Management prepares and releases a series of financial documents that aid the VBE and key stakeholders in assessing the anticipated financial performance of the school district. These financial documents are created in sequential order:

1. Initial Preliminary Projections (IPP);
2. Base Budget;
3. Preliminary Budget; and
4. Amended Budget (not yet available for SY2016/17).

For the SY2016/17, the timeline reported below demonstrates the various iterations of the budget.

Figure 2

SY2016 / 17 VBE Budget Process



(*) Preliminary Budget of \$21.80m is unbalanced, before the appropriation of \$21.80 budget proposals.

Source: VBE Management and budget documents

On June 9, 2016 the senior management team of the VSD released a document named "Revised Preliminary Budget Proposals" where a shortfall of \$21.80M was projected for the SY2016/17 preliminary budget ("Preliminary Budget"). The Preliminary Budget, published on June 9 2016, also included effective analysis and information to address how to balance the \$21.80M shortfall.

The proposals to address this deficit were presented by the senior management team to the Board of Trustees ("Trustees") of the VSB on June 9, 2016. These proposals were ultimately rejected by the Trustees on June 29, 2016. EY is advised that the reason the Trustees rejected the proposals is that in

their view the proposals were not offering adequate, stable, and predictable funding to eliminate the SY2016/17 shortfalls and could potentially worsen future operations.

Notwithstanding the decision of the Trustees, as per the *School Act* the Preliminary Budget is required to balance by June 30, 2016.

In order to operate within the framework of a balanced budget, the VSD has been implementing the management proposals for the SY2016/17 operating budget, as authorized by the *School Act*, notwithstanding that such has not been approved by the Trustees. These actions of the VSD were necessary to prevent a cash flow crisis that would have otherwise resulted; absent a significant incremental cash infusion from the MEd (\$21.8M) in an amount of approximately 5% of its SY2106/17 funding (\$444.8M) to the district.

By the end of September 2016, student enrolment for the year will be confirmed. With enrolment and provincial funding established, the finance department will adjust its Preliminary Budget and prepare the Amended Budget. The Amended Budget will be sent to the Board for approval in February 2017, the Amended Budget will form the basis for the actual funding provided by the Ministry.

The following paragraphs summarize the main features of the IPP, Base Budget and Preliminary Budget for SY2016/17.

IPP

On April 2015 the VBE estimated the Initial Preliminary Projection (“IPP”) for the SY2016/17, showing an operating deficit of \$24.98M. On January 8, 2016, the VBE presented a report entitled “Proposed 2016/2017 Preliminary Operating Budget Process/Timeline”, outlining the operating deficit of \$24.98M estimated in April 2015.

The IPP are high-level estimates based on probable and hypothetical assumptions as determined by Management. The main purpose of the IPP is to serve as the input module for the Base Budget, and therefore is subject to substantial amendment as the assumptions become more certain and decisions pertaining to future school years are crystallized.

When Management prepares the IPP it does not have some of the key information required to prepare the budget including, *inter alia*, student enrolment projections and MEd funding projections. For this reason, the IPP tends to significantly overstate the forecasted deficit. For this reason, permitting the IPP to become public leads to a misleading public perception of VBE’s financial circumstances.

Specifically, the key budgetary factors for SY2016/17 that were not available at the time Management prepared the IPP are:

- ▶ SY2016/17 student enrolment projections, presented in February 2016; and
- ▶ SY2016/17 MEd funding, announced in late February 2016.

After these key factors were defined, in late February 2016 the IPP was updated to reflect a deficit of \$24.38M. While for the current year the variance to the forecast deficit as between the IPP and the Preliminary Budget (as discussed below) was not sizable, the historical trend of the variances between the IPP (with limited data available for forecasting) and the Preliminary Budget (with improved

projected enrollment and funding levels) is material as highlighted in substantial detail in the EY 2015 Report.

Recommendation #5: EY reiterates the recommendation already included in the EY 2015 Report that the VBE not publish the IPP, which is significantly misleading for the public perception of VBE's financial circumstances. VBE should publish and disclose only the Preliminary Budget and Amended Budget to minimize the confusion about the forecasts, complying with practices of comparable school districts (including Surrey and Central Okanagan).

Base budget

In March 2016 the budget is further refined, utilizing the IPP as the key input and projecting enrolment changes and other relevant drivers including, *inter alia*, enrolment driven revenue and staffing changes, estimated salary and employee benefit increases and inflation anticipated for the following school year.

This budget is defined as the base budget, as it reflects the estimated costs for SY2016/17 to maintain the same level of service as provided in SY2015/2016. The SY2016/17 base budget ("Base Budget") shortfall for the VBE was projected to be \$27.26M. The main driver of the increase in the deficit from the IPP was the projected enrolment decline, which reduces the amount of funding the district receives.

The Base Budget is usually in a deficit position. As such, Management starts the budget balancing process and begins public consultations in April to review and approve a balanced budget and establish amended budgetary priorities for the coming year.

Preliminary budget

The VBE prepared the preliminary budget from April to June 2016, prior to the start of the SY2016/17, having estimated its enrolment figures and with knowledge of the available government funding.

Overall, the process for finalizing the preliminary budget involves significant consultation, through the Board and its committees and through budget-specific public meetings. This consultation informs the Board in establishing its budget priorities. Budget planning involves all levels of school and district staff, and assistance is also sought from Parent Advisory Councils, staff unions and associations, and other interested groups and individuals.

As mentioned above, on June 9 2016, VBE released the SY2016/17 Preliminary Budget, projecting a shortfall of \$21.80M. The table below demonstrates how the Base Budget deficit of \$27.26M evolved to the Preliminary Budget deficit of \$21.80M.

Figure 3

Preliminary budget	
2016/2017 Base Budget - February 2016	\$ (27.26) M
Additional funding	
March 2016 - Ministry of Education increase funding by \$52 per student	\$ 2.63 M
April 2016 - Students from Henderson Annex fully registered elsewhere	\$ 0.58 M
May 2016 - Ministry of Education provides further budgetary relief	\$ 2.25 M
Preliminary Budget as at June 9, 2016 (unbalanced)	\$ (21.80) M

Source: VBE 2016/17 Preliminary budget and Internal Documents

The Preliminary Budget published on June 9 2016 also addressed a proposal to balance the \$21.80M shortfall. In the section “SY2016/17 Budget Proposals” of this report, EY will analyze the \$21.80M proposals to balance the budget, and provide detailed commentary on those proposals that have a high impact on classroom instruction.

Other documents

In addition to the IPP, Base Budget and Preliminary Budget, the VBE in SY2016/17 prepared other documents that were published on the website, including a fiscal framework - document “2016/2017 Fiscal Framework” dated March 2016 - (“Fiscal Framework”) and a restoration budget memo - document Restoration Budget Memo - dated April 19, 2016 - (“Restoration Budget”). Specifically:

1. the Fiscal Framework provides comparative information for the SY2011/12 to SY2015/16 based on the amended budgets - It is not obvious what the use of the historical figures is in preparing the SY2016/17 budget. An explanation of the differences between the forecasted deficit and actual surplus for the previous school year would be useful and provide the user context for the variances.
2. the Restoration Budget is prepared to calculate the additional funding required in SY2016/17 by the VBE to “restore the same level of service that was in place over a decade ago”. There is no clear use for this document.

For the SY2016/17 VBE’s budget process involved the compilation of certain ancillary documentation such as the Fiscal Framework and the Restoration Budget that burdens VBE staff unnecessarily and does not contribute to providing a clear understanding of the budget shortfall to the stakeholders. Given that these documents do not address future deficit challenges, it is not obvious what use the documents add to the stakeholders’ understanding of the budget and budget process.

Recommendation #6: EY reiterates its recommendation included in the EY 2015 Report that the VBE critically review the documents created in preparation of the budget; specifically when there is no clear use of these documents (e.g. Fiscal Framework and Restoration Budget) and in order to eliminate the documents that are not necessary and useful to stakeholders.

However we recognize that certain events will trigger the need to release new documents, such as strikes or additional grant and holdback funding, which events are outside of the VBE's planning and control process and necessary for the stakeholders to gain an enhanced understanding of the budget.

5.1.1 Analysis of the SY2016/17 projected shortfall at each stage

The SY2016/17 budget went through many reiterations. The table below summarizes the shortfall projected at the end of each phase (IPP, Base Budget, and Preliminary Budget).

The table highlights the variance between prior year actuals and the projections forecasted at each stage of the budget (i.e., a negative means that VSD is forecasting an increase in shortfall and a positive means that VSD is forecasting an increase in funding or savings).

Figure 4

SY2016/17 budget shortfall (\$M)		IPP	Base	Preliminary
Costs not funded by the Province				
Salary increases ⁽¹⁾		(1.23)	(2.12)	(2.12)
Employee benefits ⁽²⁾		3.15	2.84	2.84
Inflation ⁽³⁾		(0.77)	(0.63)	(0.63)
	A	1.15	0.09	0.09
Enrolment change ⁽⁴⁾	B	(1.02)	(1.03)	(0.45)
Other factors				
15/16 Operating surplus carry forward to 16/17 ⁽⁵⁾		1.23	1.23	1.23
Prior year one-time savings ⁽⁶⁾		(21.13)	(19.59)	(19.59)
Prior year ongoing revenue and expenses ⁽⁷⁾		(1.53)	(2.65)	(2.65)
Ministry grant announcement - March 2016 ⁽⁸⁾		-	(3.11)	-
Ministry of Education operating grant changes ⁽⁹⁾		(2.69)	(1.99)	(2.47)
Use of 2014/2015 unrestricted surplus		0.73	0.73	0.73
16/17 Ministry directed administrative savings ⁽¹⁰⁾		(2.31)	(2.31)	(2.31)
14/15 Ministry attendance support and wellness grant		(0.32)	(0.32)	(0.32)

SY2016/17 budget shortfall (\$M)		IPP	Base	Preliminary
International education tuition increase ⁽¹¹⁾		1.61	1.67	1.67
May 31 st Ministry budget relief ⁽¹²⁾		-	-	2.25
Other		(0.11)	0.02	0.02
	C	(24.51)	(26.32)	(21.44)
Total projected surplus/(shortfall)	D (A+B+C)	(24.38)	(27.26)	(21.80)

Source: VBE 2016/17 Preliminary Budget and Internal Documents

The significant aspects of the shortfall projected at the end of each phase are described below:

1. **Salary increases:** this amount is the projected shortfall due to increases in salaries. The initial IPP figure is the roll-forward of the previous year, which is refined in the Base Budget and the Preliminary Budget. The change between the projected numbers pertains to increases in salaries due to the collective agreements, which has mandated increases.
2. **Employee benefits:** this amount is the expected savings due to rate decreases for benefit plans, specifically a 1.8% decrease to the Teacher's Pension Plan and a 3.3% decrease to Worksafe BC premiums. The savings shown in the IPP were later adjusted as there were increases to MSP and MPP premiums of 3.6% and a higher cost of extended health and dental premiums based on the average of actual claims paid across all policies.
3. **Inflation:** this amount pertains to the projected shortfall due to inflationary increases for the budget. The IPP figure for inflation was based on a roll-forward of the previous year. Inflation was adjusted to 1.9% per year in subsequent budgets, as estimates became more refined. The VSD includes budgetary increases due to inflation as part of their budget process (i.e. the VSD increases their supplies budget by 1.9% to keep up with inflation). As part of the proposals to address the \$21.80M budget deficit for 2016/17, inflationary increases to the budget were removed. This was done out of necessity and was deemed to be an appropriate cost reduction proposal as it has less direct impact on classrooms.
4. **Enrolment change:** this amount pertains to the net effect of reduced student funding due to decreased enrolment, offset by savings in teaching costs. The net shortfall of \$1M was revised in the Preliminary Budget when Maquinna Annex was closed at the beginning of the 2016/17 school year, resulting in additional savings.
5. **SY2015/16 projected operating surplus carry forward to SY2016/17:** this amount pertains to VBE approved carry forward of projected surplus from SY2015/16 Amended Annual Budget to SY2016/17 and there have been no changes between the budgets.
6. **Prior year one-time savings:** this amount pertains to one-time savings included in the SY2015/16 Amended Annual Budget that will not repeat for SY2016/17. Amounts were refined in the Base Budget and carried to the Preliminary Budget as estimates became more defined.

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7. **Prior year ongoing revenue and expenses:** this amount pertains to ongoing SY2016/17 projected costs. The estimates were increased due to additional costs originally borne by the MEd passed down to the individual school districts.
8. **MEd grant announcement – March 2016:** this amount pertains to the MEd announcement that they will not be fully funding collective agreement increases (\$2.15M), and increases associated with the implementation of Next Generation Network costs (\$0.96M).
9. **MEd operating grant changes:** this amount pertains to decreased funding due to a projected decrease in Funding Protection (\$1.99M), and other small initiatives (\$0.48M). The changes throughout the various budgets pertain to the timing of these announcements and estimate refinement.
10. **SY2016/17 MEd directed administrative savings:** this amount pertains to the MEd's request that the school districts identify all possible cuts that had no impact on the classrooms to be implemented back in SY2015/16, and again in SY2016/17. On May 31, 2016 the MEd returned the majority of the funds totaling \$25M, of which VBE's share is \$2.25M as highlighted in point 12 below.
11. **International education tuition increase:** this amount pertains to revenue expected as a result of increasing tuition rates for International students from \$13,000 to \$14,000.
12. **May 31, 2016 MEd budget relief:** this amount pertains to the May 31, 2016 announcement, where the MEd provided budget relief of \$25M in total to be shared by school districts around the Province, of which Vancouver's share was \$2.25M.

5.1.2 SY2016/17 accumulated operating surplus and deficits composition

The accumulated operating surplus can be described as VBE's net economic resources and it represents that amount by which all operating assets (financial and non-financial) exceed all operating liabilities. The total accumulated surplus listed on the financial statements also include amounts in the capital fund, which pertain to capital projects and capital assets, and are not part of operating activities. The accumulated surplus, adjusted for capital projects and capital assets, is referred as the accumulated operating surplus.

The total accumulated operating surplus is adjusted annually by the amount the prior years' revenues differ from expenditures (positively or negatively). The amounts are recorded in the financial statements, and described further herein.

EY was notified by the MEd that there is an underestimation of the accumulated operating surplus balance for SY2015/16 in the range of \$1.0 million-\$1.6 million, which would affect the ending accumulated operating surplus balance of \$10.4 million for SY2015/16. As a consequence, the projected accumulated operating surplus for SY2016/17 of \$1.0 million would also be affected, resulting in a revised accumulated operating surplus in the range of \$2.1 million to \$2.6 million. EY has not had the opportunity to verify this underestimation with management of the VSB and therefore the figures in this report reflect the projected accumulated surplus balance of \$1.1 million at the end of SY2016/17 as per the information provided by the VSB to EY.

In each of the below listed years, the Accumulated Operating Surplus is calculated as follows:

Figure 5

Accumulated operating surplus build-up					
(\$M)	Actual SY2013/14	Actual SY2014/15	Actual SY2015/16	Budget SY2016/17	Notes
Total accumulated surplus (per financial statements)	142.7	135.5	117.8	N/A	
Capital fund balance	(115.4)	(111.4)	(107.4)	N/A	
Accumulated operating surplus	27.3	24.1	10.4	N/A	
Comprised of:					
Prior year appropriated surplus	11.3	13.8	8.7	-	A
Unrestricted operating surplus	5.8	0.7	(0.2)	-	B
Internally restricted surplus	11.3	10.5	2.7	1.8	C
Total operating surplus, gross	28.4	25.0	11.2	1.8	
Unfunded accrued employee benefits	(1.1)	(0.9)	(0.8)	(0.7)	D
Accumulated operating surplus	27.3	24.1	10.4	1.1	

Source: VBE's Amended Budget and Financial Statements

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

Each of the components of the accumulated operating surplus is described in the notes below.

A. Prior year appropriated surpluses

Prior Year Appropriated Operating Surpluses consist of balances that were both restricted and unrestricted. Prior year restricted balances are amounts that have been earmarked by the VBE to offset and fund future budgets. Prior year unrestricted balances are amounts that have not been designated for a specific purpose, and can be carried forward. The decrease in Prior Year Appropriated Operating Surplus is as a result of the VBE having to draw on the surplus balances to balance the budget in recent year. As a consequence, the Prior Year Appropriated Surpluses for SY2016/17 is \$nil.

B. Unrestricted surplus/(deficit)

These amounts pertain to unrestricted surpluses accumulated during the year through operations. SY2013/14 had a large surplus due to the school strike that occurred. The cost savings related to not having to pay for salaries and other expenses resulted in an increase in the surplus for that year. In the past three years (including SY2016/17), operations have not generated a significant surplus as enrolment has been decreasing.

C. Internally restricted surplus

Internally restricted surplus consist of balances that have been designated by the VBE for specific programs or purposes.

Each of the components of the Internally Restricted Surplus is broken down further in the table below.

Figure 6

Breakdown of Internally Restricted Surplus					
School Year (\$M)	Actual SY2013/14	Actual SY2014/15	Actual SY2015/16	Budget SY2016/17	Notes
School Budget Balances	2.4	2.7	-	-	1
Collective Agreement Requirements	1.2	-	-	-	2
Purchase Order Commitments	1.8	1.9	-	-	3
Funds Required to Complete Projects in Progress	3.3	3.1	-	-	4
Distributed Learning Funding for Courses in Progress	0.2	0.2	0.4	0.4	5
Miscellaneous Grants Funding	2.4	2.6	2.3	1.4	6
Internally Restricted Surplus	11.3	10.5	2.7	1.8	

Source: VBE's Amended Budget and Financial Statements

Notes to the table above:

1. **School Budget Balances:** are flex accounts at each individual school, that the school has the discretion to spend as deemed appropriate. This balance was borrowed from the 2015/16 actual results, to balance the SY2016/17 budget and will have to be repaid for the beginning of SY2017/18.
2. **Collective Agreement Requirements:** pertain to balances that had been set aside to be used for the payment of teacher professional development days. Substitute teachers are required to replace teachers that go on professional development leave, and these surplus amounts pertain to amounts that were set aside but not yet used. The amount is \$nil from SY2014/15 onward because of a change in policy which accrues the full amount of the expenditure and treats it as

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spent at the end of the year. Amounts that are unspent are recognized as a recovery when the accrual is reversed and the actual amount is recorded.

3. **Purchase Order Commitments:** pertain to purchase orders that had been completed during a school year, but for which the items or services were not delivered or performed until the following year. In the past, the VBE's practice was to recognize the expense during the school year. The practice of carrying over purchase order funds has been discontinued. The expenditure is now charged in the budget year when the goods or services were requisitioned.
4. **Funds Required to Complete Projects in Progress:** pertain to funding that the MEd had been providing in the recent years, for a specific education plan. The funds were to be utilized in the creation and expansion of an early literacy program for children Grade 4 and under, specifically to assist those with trouble reading. The program had been implemented in 40 schools, and was in the process of slowly expanding, with the goal of being implemented in all schools. Due to the budgetary constraints in the upcoming years, this program has been put on hold, and the excess funds have been utilized to balance the SY2016/17 deficit.
5. **Distributed Learning Funding for Courses in Progress:** pertain to programs for which funding is received up front, but the service is provided over a long period of time. For example, online programs receive funding based on an enrolment count in May, but the teaching is provided over the next year until the following September. This timing difference results in a surplus balance year over year.
6. **Miscellaneous Grants Funding:** relate to funds received from external (non-MEd funding) sources that have been donated for a specific reason. Most of this funding pertains to amounts received from CIBC Wood Gundy, to provide meals to children in need.

D. Unfunded accrued employee benefits

These amounts pertain to the amortization of employee future benefits that were incurred in the past. The amount is decreased by approximately \$130,000 annually until the balance is fully recognized.

5.1.3 Accumulated operating surplus and deficits recent trend

The table reported below shows the trend in revenues and operating expenses for the periods from SY2011/12 to SY2016/17. The figures presented below are the final audited numbers from SY2011/12 to SY2014/15, unaudited numbers for SY2015/16 and balanced budget figures for SY2016/17 (after the application of the \$21.80M proposals).

Figure 7

Currency: \$M	2011/12 Audited	2012/13 Audited	2013/14 Audited	2014/15 Audited	2015/16 Unaudited	2016/17 Balanced Budget
Provincial grants (Ministry of Education)	461.7	457.5	440.4	436.0	448.0	444.8
Other	28.2	30.5	30.4	34.5	37.7	37.9
Total Revenue	489.9	488.0	470.8	470.5	485.7	482.7
Salaries & benefits	(444.1)	(444.8)	(430.2)	(438.7)	(461.0)	(453.4)
Services and supplies	(34.7)	(33.5)	(33.6)	(34.5)	(37.6)	(36.2)
Total Operating Expenses	(478.8)	(478.3)	(463.8)	(473.2)	(498.6)	(489.6)
Operating Surplus (Deficit)	11.1	9.7	7.0	(2.7)	(12.9)	(6.9)
Other items ¹	(5.2)	(4.2)	0.7	(0.5)	(0.8)	(2.4)
Operating Surplus (Deficit) net of other items	5.9	5.5	7.7	(3.2)	(13.7)	(9.3)
Accumulated Operating Surplus, beginning of year	10.5	16.4	21.4	27.3	24.1	10.4
Operating Surplus (Deficit) net of other items	5.9	5.5	7.7	(3.2)	(13.7)	(9.3)
Accumulated Operating Surplus, re-statement	-	(0.5)	(1.8)	-	-	-
Accumulated Operating Surplus (Deficit), end of year	16.4	21.4	27.3	24.1	10.4	1.1

Source: VBE's Audited Financial Statements and Internal Budget Documents

- (1) For actual years, "Other items" includes the following: net transfers (to) from other funds (i.e. capital fund) such as tangible capital assets purchased, local capital, lease interest expense, capital lease principal payments. For 2016/2017 Budget, "Other items" includes the following: draw on prior year surplus, net transfers (to) from other funds (i.e. capital fund), such as tangible capital assets purchased, local capital, lease interest expense, capital lease principal payments.

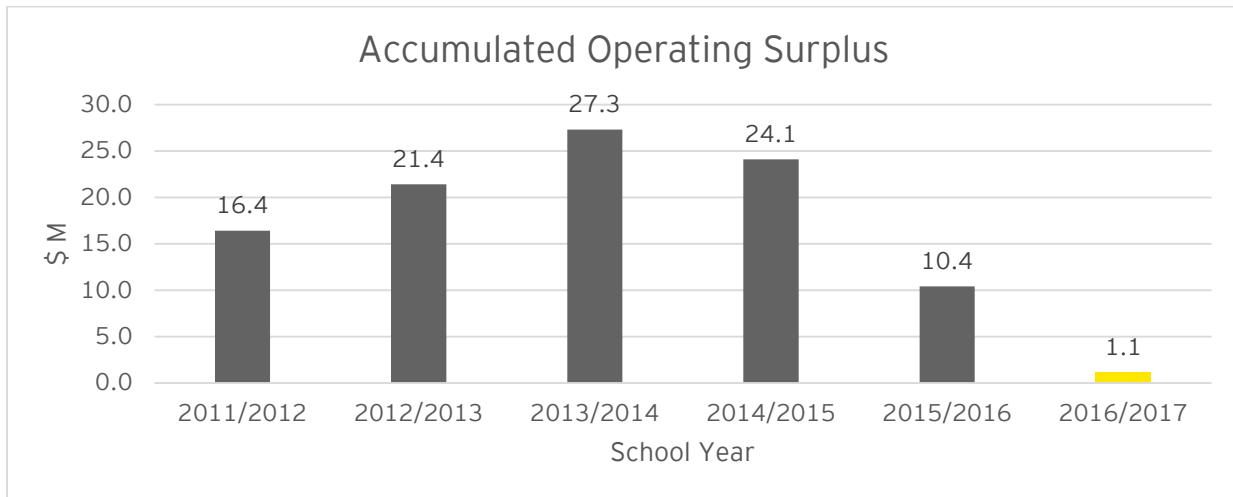
As shown in the table above, for the past two years and for the projected current year, the operating expenses of the VBE exceed revenues, resulting in an operating deficit. This operating deficit is balanced by drawing down the accumulated operating surplus from the prior years.

In particular, in SY2016/17 there is still a \$6.9M operating deficit, even after applying \$2.1M in revenue proposals and \$12.3M in cost reduction proposals. The \$6.9M operating deficit is addressed by appropriating prior year surpluses.

Drawing down on the accumulated operating surplus is permitted for school districts, but is unsustainable and at some point the accumulated operating surplus will run out. In fact, as noted from the chart below, the accumulated operating surplus for VBE for the last five years stood at its highest point in the SY2013/14 (\$27.3m); however, from SY2014/15 has significantly decreased. As noted above, the elimination of the accumulated operating surplus reduces the flexibility available to the VBE to balance the future budget shortfalls and requires "real time" revenue generating and cost cutting initiatives aimed at addressing budgetary constraints and impact the classroom.

At the end of the SY2016/17 the accumulated operating surplus is projected to be only \$1.1M. This will increase the difficulty of balancing the budget for SY2017/18.

Figure 8



Source: VBE 2016/17 Preliminary Budget and Internal Documents

EY was notified by the MEd that there is an underestimation of the accumulated operating surplus balance for SY2015/16 in the range of \$1.0 million-\$1.6 million, which would affect the ending accumulated operating surplus balance of \$10.4 million for SY2015/16. As a consequence, the projected accumulated operating surplus for SY2016/17 of \$1.0 million would also be affected, resulting in a revised accumulated operating surplus in the range of \$2.1 million to \$2.6 million. EY has not had the opportunity to verify this underestimation with management of the VSB and therefore the figures in this report reflect the projected accumulated surplus balance of \$1.1 million as at SY2016/17 per the information provided by the VSB to EY.

The Preliminary Budget addresses how to balance the \$21.80M shortfall. In the next section of this report, EY will analyze the \$21.80M proposals to balance the budget, providing comments on those proposals that have a high impact on classrooms.

SY2016/17 budget proposals

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6 SY2016/17 budget proposals

6.1 Review of SY2016/17 preliminary budget proposals

As explained in the previous section, on June 9 2016, the VBE released an updated preliminary budget proposals report, which addressed means to balance the \$21.80M shortfall, as mandated by the School Act.

These updated preliminary budget proposals were the latest in a succession of three proposal reports submitted by the VBE. In each version, a significant shortfall was forecast, with proposals included to address the deficit and balance the budget.

6.1.1 Development of budget proposals

The staff of the VSD has spent adequate effort to develop these proposals. A significant number of consultations has occurred with various VSD committees, Trustees, and Senior Management amounting to approximately 110 hours, where the costs and benefits of each individual proposal were weighed.

Meetings were also held to obtain input from stakeholders and the public with respect to the budget proposals. This table summarizes the scheduled meeting and consultation hours spent by each group discussing and deliberating the budget. The actual hours spent in preparation for each meeting, developing the budget, and consultations outside of the scheduled meetings are not represented below.

Figure 9

Meeting group	Hours spent
VSD District Management Team	37
VSD Senior Management Team	11
VBE Trustees	29
Union Executives	7
Public Consultation	26
Total	110

Source: VBE Internal Documents and Calendar

The budget proposals presented to balance the \$21.80M shortfall are a culmination of the combined efforts, input, and feedback from many concerned voices. The resulting proposals presented have been optimized to balance administrative reductions and classroom impact, given the available resources.

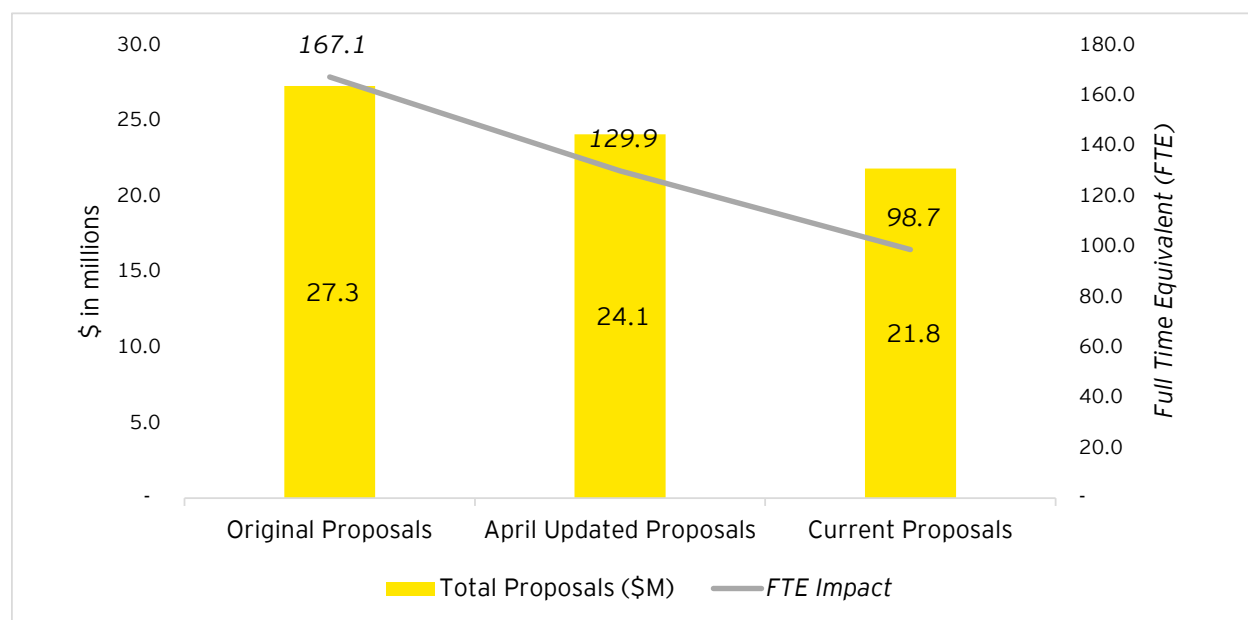
6.1.2 Previous budget iterations and corresponding proposals

The original SY2016/17 preliminary budget proposals were designed to address an estimated shortfall of \$27.26M. Following additional funding from the MED, as well as savings realized from other

measures, this shortfall was revised to \$24.05M in April 2016 and an updated budget proposals report was released. Subsequently, in May 2016, the Ministry provided additional funding that further decreased the shortfall to the current \$21.80M. The current preliminary budget proposals report addresses this \$21.80M shortfall.

The evolution of the preliminary budget proposals and corresponding changes to FTE are summarized in the chart below. As each round of funding was applied to the proposals, VBE was able to reduce the FTE impact.

Figure 10



Source: VBE 2016/17 Preliminary Budget and Internal Documents

Original proposals:

VBE originally proposed a number of recommendations to address the \$27.26m budget shortfall, summarized below:

- ▶ **Administrative:** \$7.51m in administrative proposals were recommended, with a decrease in FTE of 24.40.
- ▶ **Facilities:** \$2.49m in facilities proposals were recommended, with a decrease in FTE of 21.80.
- ▶ **Educational:** The majority of proposals were educational, totaling \$17.26m with a decrease in FTE of 120.90.

The total FTE impact of these proposals was 167.10. In each subsequent proposal update, these proposals were modified, reduced or eliminated as additional funding was received or alternative cost saving measures identified.

April updated proposals:

As previously mentioned, the original shortfall of \$27.26m was reduced following additional funding and savings measures. The MEd provided an increase in funding of \$52 per student, which resulted in \$2.63m of additional funds. Additional savings of \$0.58m were also realized after all students previously enrolled at Henderson Annex registered in other locations. The application of these funds resulted in the total value of proposals being reduced in the following manner:

- ▶ **Administrative:** No administrative proposals were adjusted.
- ▶ **Facilities:** \$0.1m was applied to facilities proposals with no impact on FTE.
- ▶ **Educational:** \$3.11m was applied directly to educational proposals and specifically, staffing reductions, resulting in the total saving of 37.24 FTE positions from elimination.

Current proposals:

Following the release of the April updated proposals, the MEd announced additional funding of \$2.25m in May 2016. This was applied to the preliminary proposals and resulted in the following reductions:

- ▶ **Administrative:** A total of \$0.83m was applied to administrative proposals resulting in a saving of 10.0 FTE.
- ▶ **Facilities:** No facilities proposals were adjusted.
- ▶ **Educational:** \$1.43m was applied to educational staffing reductions resulting in savings of 21.2 FTE.

Total proposal reductions

Over the course of the budget proposal process, VBE received \$5.47m in additional funding to be applied to the preliminary budget proposals. Educational proposals were prioritized and were reduced by \$4.54m, while administrative proposals were reduced by \$0.83m and facilities proposals were reduced by only \$0.1m. In total, the reductions resulted in a net decrease in staff eliminations of 68.44 FTE, the majority coming from educational proposals in line with the prioritized application of funds.

The following table summarizes the evolution of the budget proposals from the original proposals to the current proposals.

Figure 11

	Original		April Update		Current		Δ Original - Current	
Budget proposals	Impact (\$M)	FTE	Impact (\$M)	FTE	Impact (\$M)	FTE	Impact (\$M)	FTE
Administrative	7.51	24.40	7.51	24.40	6.68	14.40	(0.83)	(10.00)
Facilities	2.49	21.80	2.39	21.80	2.39	21.80	(0.10)	-
Educational	17.26	120.90	14.15	83.66	12.72	62.46	(4.54)	(58.44)
TOTAL	27.26	167.10	24.05	129.86	21.80	98.66	(5.47)	(68.44)

Source: VBE 2016/17 Preliminary Budget and Internal Documents

Student impact level

Throughout the preliminary budget process, each proposal was categorized according to its impact on students and their learning environment using the following classifications:

- ▶ **Level 1:** Limited direct impact on students;
- ▶ **Level 2:** Some impact on students;
- ▶ **Level 3:** Impacts a large number of students; and
- ▶ **Level 4:** Severe impacts on teaching and learning.

As Level 4 proposals have the biggest impact on student teaching and learning, these are the ones that the VBE targets when additional funding becomes available. The following table illustrates how VBE applied this principle throughout the budget process, where \$4.01m of the \$5.47m available was applied to reducing the impact of Level 4 proposals.

Figure 12

Impact Level	Original Proposals (A)	Δ A - B	April 2016 Update (B)	Δ B - C	Current Proposals (C)	Δ Original - Current
SY2016/17 Budget Proposal Iterations (\$M):						
L1	8.26	–	8.26	(0.01)	8.25	(0.01)
L2	8.31	(0.10)	8.21	(0.26)	7.96	(0.36)
L3	3.69	(0.27)	3.41	(0.81)	2.61	(1.08)
L4	6.99	(2.83)	4.16	(1.18)	2.98	(4.01)
Total	27.26	(3.20)	24.05	(2.26)	21.80	(5.47)
SY2016/17 Budget Proposal Iterations FTE Impact:						
L1	2.80	–	2.80	–	2.80	–
L2	26.94	–	26.94	(2.80)	24.14	(2.80)
L3	57.11	(3.40)	53.71	(14.20)	39.51	(17.60)
L4	80.25	(33.84)	46.41	(14.20)	32.21	(48.05)
Total FTE	167.10	(37.24)	129.86	(31.20)	98.66	(68.44)

Source: VBE 2016/17 Preliminary Budget and Internal Documents

In this section of the report, EY focused its analysis on proposals that were designated as Level 3 or Level 4 as they have the most significant impact on students and classrooms. The following table illustrates the evolution of each of the Level 3 and Level 4 proposals throughout the budget process and it is clear that Level 4 staffing proposals were targeted for impact reductions when additional funding became available.

Figure 13

SY2016/17 Budget Proposal Iterations (\$M)	Original Proposals (A)	Δ A - B	April 2016 Update (B)	Δ B - C	Current Proposals (C)	Δ Original - Current
Level 3 Proposals						
School Based Office Support	1.08	-	1.08	(0.47)	0.61	0.47
Home Learners	0.09	-	0.09	-	0.09	-
Adult Education	0.10	-	0.10	-	0.10	-
Athletic Coordinator1	0.08	(0.08)	-	-	-	0.08
Fine and Performing Arts Coordinator1	0.08	(0.08)	-	-	-	0.08
Literacy/Early Intervention Teacher Consultant	0.09	-	0.09	-	0.09	-
Anti-Racism/Anti-Homophobia Teacher Mentors	0.09	-	0.09	-	0.09	-
Anti-Homophobia Teacher Mentor Reinstated for 1 Year	-	-	-	(0.06)	(0.06)	0.06
Brailist	0.06	-	0.06	-	0.06	-
Home Instruction Teachers	0.09	-	0.09	-	0.09	-
Early Intervention/Modern Languages Clerical	0.03	-	0.03	-	0.03	-
Multicultural Liaison Workers	0.12	-	0.12	(0.06)	0.06	0.06
Optional Elementary Band & Strings Program	0.40	-	0.40	-	0.40	-
Garibaldi Learning Services Clerical Support	0.05	-	0.05	-	0.05	-
District-Based Gifted Staffing	0.34	(0.12)	0.22	(0.16)	0.06	0.28
Career Information Assistants	0.58	-	0.58	(0.06)	0.52	0.06
District Vision and Hearing Teachers	0.09	-	0.09	-	0.09	-
ELL District Class Reduction	0.11	-	0.11	-	0.11	-
Additional Entitlements	0.21	-	0.21	-	0.21	-
Subtotal Level 3 Proposals	3.69	(0.27)	3.41	(0.81)	2.61	1.08
Level 4 Proposals						
School Age Children and Youth program 1	0.07	(0.07)	-	-	-	0.07
School Based Vice Principals	0.36	(0.11)	0.25	(0.16)	0.09	0.28
Special Education Staffing	0.21	-	0.21	-	0.21	-
Secondary Teacher Staffing	2.95	(0.96)	1.99	(0.66)	1.33	1.61
International Education Teacher Staffing	0.61	-	0.61	-	0.61	-
Enhanced Services Literacy Teachers	1.11	(0.74)	0.37	(0.09)	0.28	0.83
Special Education Support Entitlements1	0.64	(0.37)	0.27	(0.27)	-	0.64
Elementary Non Enrolling Staffing	1.05	(0.59)	0.46	-	0.46	0.59
Subtotal Level 4 Proposals	6.99	(2.83)	4.16	(1.18)	2.98	4.01
Total Level 3 and Level 4 Proposals	10.68	(3.10)	7.57	(1.99)	5.59	5.09

Source: VBE Management and budget documents

- (1) Funding was applied to completely remove these proposals from the current preliminary budget proposals.

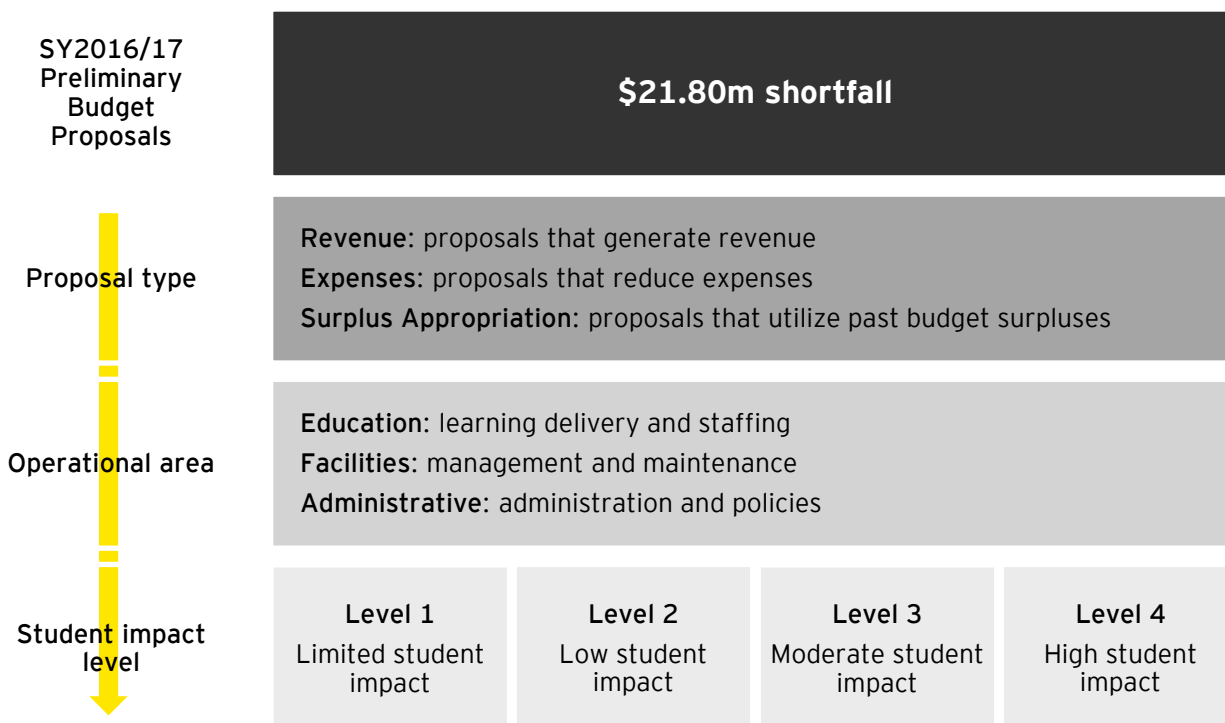
6.1.3 Overview of the SY2016/17 preliminary budget proposals

Various measures were proposed by VBE in order to balance the SY2016/17 budget. These proposals were analyzed through a top-down framework that categorized proposals in terms of proposal type, operational area and student impact level. In this regard, the proposals addressing the \$21.80m shortfall were first identified as relating to one of the following budget categories:

- ▶ **Revenue (\$2.10m):** proposals designed to generate additional revenue used towards erasing the deficit;
- ▶ **Expense (\$12.31m):** proposals designed to reduce operating costs and deliver savings towards the shortfall
- ▶ **Surplus appropriation (\$7.39m):** proposals designed to apply previous years' budget surpluses directly to the deficit.

The proposals were further sub-divided into operational areas, and impact on students as discussed above. The following chart illustrates this framework hierarchy.

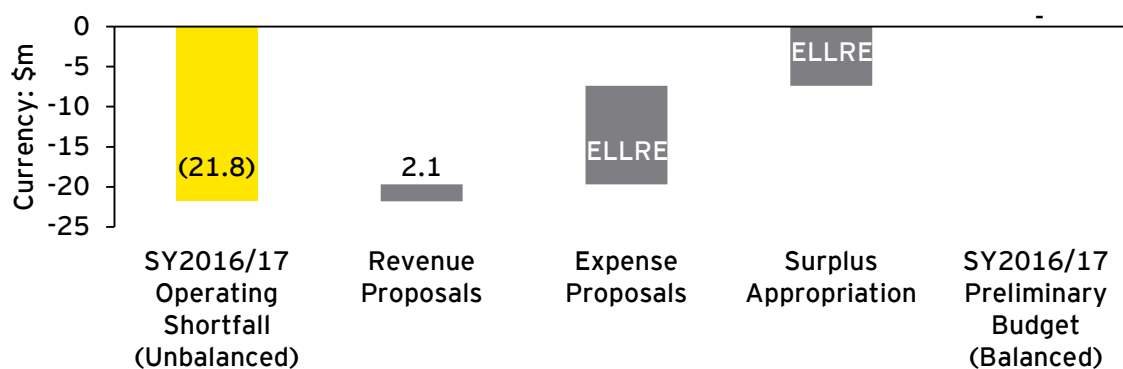
Figure 14



Source: VBE Management and budget documents

The chart below provides a summary bridge of the preliminary proposals recommended by the VBE to achieve a balanced budget for SY2016/17.

Figure 15



Source: VBE Management and budget documents

The table below shows a breakdown of the SY2016/17 proposals by category:

Figure 16

	Impact level (\$M)				Total	FTE
	L1	L2	L3	L4	Impact (\$M)	Impact (#)
Revenue related proposals						
Administrative	0.65	-	-	-	0.65	-
Educational	-	1.40	(0.13)	-	1.27	(4.76)
Facilities	0.10	0.08	-	-	0.18	-
Total revenue	0.75	1.48	(0.13)	-	2.10	(4.76)
Expense related proposals						
Administrative	1.69	0.61	0.61	-	2.90	14.40
Educational	1.18	0.90	2.13	2.98	7.20	67.22
Facilities	0.32	1.90	-	-	2.22	21.80
Total expenses	3.19	3.40	2.74	2.98	12.31	103.42
Surplus appropriation proposals						
Administrative	3.13	-	-	-	3.13	-
Educational	1.18	3.08	-	-	4.26	-
Facilities	-	-	-	-	-	-
Total surplus appropriation	4.31	3.08	-	-	7.39	-
TOTAL	8.26	7.96	2.60	2.98	21.80	98.66

Source: VBE Management and budget documents

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Revenue related proposals

Revenue generating proposals contribute \$2.10m to the reduction of the deficit and are primarily comprised of Level 1 and 2 low student impact proposals. Over half of this figure is delivered by a proposal to increase International Education enrolment by 100 FTE students, generating gross revenues of \$1.4m and creating 4.76 FTE new staff positions.

Expense related proposals

The majority of progress towards balancing the budget can be found in the form of expense reductions, which contribute \$12.31m to reducing the deficit. \$6.59m of these are Level 1 and 2, while the remaining \$5.72m are Level 3 and 4.

The majority of the \$12.31m reduction is related to the decrease in FTE of 103.42 and the corresponding savings from eliminated salaries and employee benefits. These reductions in salaries and other expenses are summarized in the table below.

Figure 17

Expense proposals (\$M)	Impact level				Totals	Current	Proposal	FTE After
	L1	L2	L3	L4		FTE ¹	FTE Impact	Proposals
Salaries and benefits	\$M	\$M	\$M	\$M	\$M	#	#	#
Teachers	(0.32)	0.76	1.32	2.89	4.66	2,935	(54.05)	2,881
Support staff	0.52	1.60	1.37	-	3.49	1,168	(44.97)	1,123
Other	0.31	0.52	-	0.09	0.92	1,073	(4.40)	1,069
Total salaries and benefits	0.51	2.87	2.69	2.98	9.06	5,176	(103.42)	5,073
Total supplies and services	2.68	0.54	0.04	-	3.26	-	-	-
TOTAL	3.19	3.40	2.74	2.98	12.31	5,176	(103.42)	5,073

Source: VBE Management and budget documents

⁽¹⁾ Based on 2015 staffing figures.

\$9.06m relates to reductions in staff salaries and benefits, with over half of these reductions coming from teacher positions. Supplies and services account for the remaining \$3.26m. The reduction of 103.42 FTE is approximately 2% of the VSD's 2015 general staff count.

Surplus appropriation related proposals

The surplus appropriation proposals recommended by the VBE provide \$7.39m towards reducing the budget deficit. All proposals related to the appropriation of surplus are classified as having an impact of either Level 1 or 2, meaning that these proposals are not expected to directly impact classrooms.

These proposals utilize funds from previous budget surpluses and other surplus accounts and as such are primarily one-time measures that will not have an effect on future budgets.

They are comprised of the following specific proposals:

Figure 18

Surplus appropriation proposals	(\$M)	Level
Surplus carry-forward	3.13	L2
Borrowing School Balances	2.07	L1
School Flexible Budget Funding	1.18	L1
Other	1.02	L1
TOTAL	7.39	

Source: VBE Management and budget documents

One-time vs. ongoing proposals

All the VBE budget proposals deliver either one-time or ongoing effects. The preference is for ongoing measures to be introduced as these typically offer greater sustainability and deliver benefits into the future. In some cases, one-time measures are required to deliver further savings and revenues towards balancing the budget deficit; however, there are no financial benefits realized past the current year.

The majority of the SY2016/17 VBE budget proposals are ongoing measures; however, over a third of the proposals are one-time measures, as summarized below.

Figure 19

One-time vs Ongoing Proposals	\$M	%
One-time proposals		
Revenue	1.40	
Expense	0.63	
Surplus appropriation	6.26	
Total one-time proposals	8.29	38%
Ongoing proposals		
Revenue	0.70	
Expense	11.69	
Surplus appropriation	1.13	
Total ongoing proposals	13.52	62%
TOTAL PROPOSALS	21.80	100%

Source: VBE Management and budget documents

The majority of one-time proposals relate to the appropriation of prior year surpluses. While this is not ideal, these proposals were necessitated by the size of the shortfall and the limited opportunities for additional savings.

6.1.4 Analysis of the SY2016/17 preliminary budget proposals

The SY2016/17 budget proposals recommended by VBE are varied in their impact on students. A review of the VBE mission statement reveals the broad goal of enhancing educational opportunities for students through environments conducive to learning. Therefore, Level 1 student impact proposals would be most favorable to implement, as opposed to Level 4 proposals, which would have a greater effect on students and their learning environment, and subsequently hinder VBE from delivering its mission.

Analysis of the budget proposals revealed that \$16.22m of the recommendations were classified as either Level 1 or 2, as illustrated in the chart below. This demonstrates that in addressing the \$21.80m shortfall, VBE has generally recommended proposals that will have the least impact on students.

Figure 20

Level	Impact (\$M)	%	Number of proposals
L1	8.26	38%	21
L2	7.96	36%	22
Total L1 and L2	16.22		43
L3	2.61	12%	17
L4	2.98	14%	6
Total L3 and L4	5.59		23
TOTAL	21.80	100%	66

Source: VBE Management and budget documents

The remaining \$5.59m Level 3 and 4 proposals are expected to have a more significant impact on students and their learning environment.

For this reason, this investigation focuses on these 23 higher impact Level 3 and Level 4 proposals, all of which are expense related, as summarized in this table:

Figure 21

#	Proposal name	Operational area	Nature	\$M	FTE
Level 3 - Expense related proposals					
1	School Based Office Support	Administrative	Ongoing	0.61	12.40
2	Home Learners	Educational	Ongoing	0.09	1.00
3	Adult Education	Educational	Ongoing	0.10	1.17
4	Literacy/Early Intervention Teacher Consultant	Educational	Ongoing	0.09	1.00
5	Anti-Racism/Anti-Homophobia Teacher Mentors	Educational	Ongoing	0.09	1.00
6	Anti-Homophobia Teacher Mentor Reinstated	Educational	One-Time	(0.06)	(0.60)
7	Brailist	Educational	Ongoing	0.06	1.00
8	Home Instruction Teachers	Educational	Ongoing	0.09	0.95
9	Early Intervention/Modern Languages Clerical	Educational	Ongoing	0.03	0.60
10	Multicultural Liaison Workers	Educational	Ongoing	0.06	1.00
11	Optional Elementary Band & Strings Program	Educational	Ongoing	0.40	5.86
12	Garibaldi Learning Services Clerical Support	Educational	Ongoing	0.05	1.00
13	District-Based Gifted Staffing	Educational	Ongoing	0.07	0.70
14	Career Information Assistants	Educational	Ongoing	0.52	8.00
15	District Vision and Hearing Teachers	Educational	Ongoing	0.09	1.00
16	ELL District Class Reduction	Educational	Ongoing	0.11	1.14
17	Additional Entitlements	Educational	Ongoing	0.21	2.29
	Total Level 3			2.61	39.51
Level 4 - Expense related proposals					
18	School Based Vice Principals	Educational	Ongoing	0.09	0.40
19	Special Education Staffing	Educational	Ongoing	0.21	2.28
20	Secondary Teacher Staffing	Educational	Ongoing	1.33	14.86
21	International Education Teacher Staffing	Educational	Ongoing	0.61	6.67
22	Enhanced Services Literacy Teachers	Educational	Ongoing	0.28	3.00
23	Elementary Non Enrolling Staffing	Educational	Ongoing	0.46	5.00
	Total Level 4			2.98	32.21
	TOTAL Level 3 + 4			5.59	71.72
	Total Level 1 + 2			16.21	26.94
	TOTAL Level 1 + 2 + 3 + 4			21.80	98.66
	Level 1 + 2 as a % of Total Proposals			74.4%	27.3%
	Level 3 + 4 as a % of Total Proposals			25.6%	72.7%

Source: VBE Management and budget documents

As calculated above, Level 3 and Level 4 proposals amount to 25.6% of the financial impact of the cuts but are responsible for 72.7% of the impact on headcount. The remainder of this sub-section of the report focuses on the 23 Level 3 and Level 4 proposals, having a high impact on classrooms. The analysis provides a description of each proposal, the consultation that was undertaken in preparing the proposal, the rationale for the proposal, the calculation of the financial impact of the proposal and the perceived sustainability of the proposal.

Proposal 1: School based office support

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Administrative	Ongoing	L3	0.61	12.40
Reason for inclusion: Increase operational efficiency and flexibility; permitted by existing regulations					

Description of the proposal

School based office support workers support students, parents, staff and the school community in a clerical capacity. The VBE proposes to reduce office support staffing at elementary schools, secondary schools and within the Vancouver Learning Network (VLN) office, as well as eliminate these positions within the on-site mini and alternate programs.

Consultation

The Associate Superintendent of Employee Services was involved in the formation of this proposal. Input was also sought from the Senior Manager of Human Resources.

Rationale

As the current situation requires substantial budget savings to be realised, this proposal was identified to make a significant impact towards erasing the deficit. Although the staff reductions are severe, the proposal will deliver over \$600,000 (23% of total Level 3 proposals) towards balancing the budget.

Calculation

Different approaches were used in arriving at the reduced staffing numbers, specific to each area.

Elementary and secondary schools: The VBE identified that in smaller schools with less than 50 FTE staff, it was possible to eliminate an "extra clerical" office support position, resulting in total staff savings of 6.3 FTE. Larger schools (greater than 50 FTE staff) were required to maintain this extra clerical staff member due to WorkSafeBC regulations.

Mini and alternate programs: These programs are either conducted on-site or off-site. The VBE suggests the office support positions related to on-site programs could be eliminated result in savings of 4.1 FTE.

Vancouver Learning Network Office: This relates to the distributed learning program where students complete coursework online, and correspond with instructors through email or phone the majority of the time. Face to face instruction, and the head office for the program currently takes place at John Oliver Secondary, but the VBE is proposing that the program be decentralized and the responsibilities absorbed by the schools nearest to the enrolling student. The result is a reduction of support staffing by 2 FTE.

Sustainability

Reduction and elimination of the current support staff positions will place more pressure on the remaining clerical staff. There are currently 65.7 FTE of clerical staff, and the reduction of 12.4 FTE proposed represents a reduction in capacity of 19%. The sustainability of this proposal will depend on this staffing group's ability to adapt to the increased workload, and should be monitored closely.

Proposal 2: Home Learners

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.09	1.00
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

The Home Learners Program provides flexibility for children and parents to partner with the public education system in administering education. The program is designed for students from Kindergarten to Grade 7.

Students and parents collaborate with teachers to design a unique learning plan that is tailored to the individual student and family's needs. Students are required to meet the learning standards of the BC curriculum and are encouraged to attend in school sessions two days each week.

Consultation

The Associate Superintendent and District Principal of Specialty Programs were involved in the formation of this proposal.

Rationale

There are currently two teachers responsible for 35 students, with average daily attendance between 10 and 14 students. Daily attendance is low, and on average, students only attend approximately 50 days per year.

Calculation

The current Student-Educator ratio (SER) is 17.5:1. The proposal will increase this ratio to 35:1. While this is higher than the preferred 30:1 ratio as identified by VSD Management, based on the average daily attendance of 10 to 14 students, the actual attendance ratio would more likely be between 10:1 and 14:1.

Sustainability

Elimination of one of teacher will place greater pressure on the remaining teacher; however, the Student Educator Ratio suggests this will not result in an unreasonable increase in workload and therefore the proposal appears to be sustainable. If enrolment numbers increase in the future, this proposal may need to be re-addressed.

Proposal 3: Adult education

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.10	1.17
Reason for inclusion: Continuation of previous proposals and consolidations					

Description of the proposal

The Adult Education program is designed for mature-aged students who have graduated from secondary school in British Columbia, other parts of Canada or other countries, who are seeking courses to help them improve their skills and opportunities. The program is also designed for mature-aged students who have attended school in British Columbia but are yet to graduate.

VBE proposed to reduce staff levels at two of the three current locations as well as reduce expenditure on services and supplies.

Consultation

The Director of Instruction and District Principal of Specialty Programs were involved in the formation of this proposal.

Rationale

VBE previously operated five centres which has been reduced to three centres in past budget measures. The current proposal looks to further reduce costs associated with this program.

Calculation

A reduction of 1.17 FTE was applied to two clerical positions supporting each of the two affected educational centres.

Sustainability

The proposal necessitates an increase in workload for the remaining clerical staff in the program. Sustainability will be dependent on their ability to adapt to these changes and should be monitored.

Proposal 4: Literacy/early intervention teacher consultant

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.09	1.00
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

The Literacy/Early Intervention Consultant provides support to teachers and elementary schools that implement the Reading Recovery and Early Intervention strategies. Tasks associated with this position include organizing workshops, training and resource support.

Consultation

The Associate Superintendent of Learning Services was involved in the formation of this proposal.

Rationale

1.4 FTE consultants previously engaged to assist in the literacy programs were eliminated as part of the SY2014/15 budget proposals. Therefore there is only one remaining resource for these programs.

The current proposal eliminates this support position entirely, with no alternative plans to replace the resource.

Calculation

This proposal was calculated based on an analysis of average teacher salaries in the VSD.

Sustainability

While this will deliver almost \$100,000 towards the current shortfall, removing this resource entirely will significantly impact those students who rely on the support of the literacy programs. Students with literacy issues will continue to struggle unless another initiative is designed to replace this resource.

Proposals 5 & 6: Anti-racism/anti-homophobia teacher mentors

Elimination of positions:

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.09	1.00
Reason for inclusion: Increase operational efficiency and flexibility					

Reinstatement for 1 year:

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	One-Time	L3	(0.06)	(0.60)

Description of the proposal

The Anti-Racism/Anti-Homophobia Mentor positions are established to provide support to schools in creating safe learning environments where cultural and gender diversity is respected.

The VBE intends to keep the Anti-Homophobia Mentor for one additional year, after which it will be eliminated.

Consultation

The Associate Superintendent of Learning Services and the District VP of Social Responsibility were involved in the formation of this proposal.

Rationale

The Anti-Racism Mentor position had previously been reduced from 0.60 FTE to its current 0.40 FTE level. With the proposed budget cuts, this proposal can deliver \$100,000 in ongoing savings.

Calculation

This proposal was calculated based on an analysis of average teacher salaries in the VSD.

Sustainability

While it is likely that having dedicated mentors to oversee these areas would result in improving respect for diversity, it is possible that the level of this effect would be minimized by stakeholders in the learning environment falling back on their own morals and beliefs to navigate diversity issues. This may not necessarily result in a negative outcome, with the general dialogue of society regarding racism and homophobia shifting towards a more positive and constructive approach.

VBE has flagged this as a key proposal to monitor and wishes for the positions to be reinstated if funds become available or the mitigating factor of societal change does not materialize as desired.

Proposal 7: Brailist

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.06	1.00
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

Braillists are engaged to transcribe the print curriculum materials into Braille for blind students. There are currently two Brailist employed by VBE and the proposal is to reduce this by 1 FTE.

Consultation

The Associate Superintendent of Learning Services and District Principal of Special Education were involved in the formation of this proposal.

Rationale

One brailist can service more than one student and the number of students requiring support with Braille has been declining in recent years. In the last few years, there were no more than five students in the program:

- ▶ SY2012/13 - 5 students
- ▶ SY2013/14 - 5 students
- ▶ SY2014/15 - 4 students
- ▶ SY2015/16 - 3 students
- ▶ SY2016/17 - 2 students (projected)

Calculation

There are currently two Braillists working with three students with an Student Educator Ratio of 1.5:1. As it is currently anticipated that there will be two students using Braille next year, reducing the FTE by 1 will increase this ratio to 2:1.

Sustainability

Sustainability of this proposal is dependent on enrolment numbers. With the number of students requiring support with Braille declining in recent years, indications are that this proposal will be

sustainable for the foreseeable future. However, with such intense teacher to student ratios employed in the past, even a small rise in the number of students could make this proposal unsustainable.

Proposal 8: Home instruction teachers

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.09	0.95
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

Home Instruction Teachers support students unable to attend schools due to medical conditions. They also assist with the transition of students back into the general school population when appropriate.

Support services range from one month up to a full school year, typically averaging three to six months. Service delivery is usually between once a week and up to three times a week depending on the number of students on the teachers' caseload. Full time Home Instruction Teachers can carry a case load of up to 15 students and part time teachers can carry up to 10.

The proposal recommends eliminating 0.95 FTE from the current 2.95 FTE base.

Consultation

The Associate Superintendent of Learning Services and District Principal of Special Education were involved in the formation of this proposal.

Rationale

VBE believe existing resources such as Vancouver Learning Network could be utilized by these students in order to decrease the required FTE currently assigned to this program.

Calculation

The current caseload of the four teachers (two full time, two part time) is 41 students. The full time teachers handle 13 and 11 students (both under capacity) while the two part time teachers carry 17 students between them.

Sustainability

If the existing external resources are utilized and students successfully reassigned, this proposal is potentially sustainable. However, this proposal also has the potential to leave a number of students without access to appropriate teaching support and should be monitored closely.

Proposal 9: Early Intervention/modern languages clerical

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.03	0.60
Reason for inclusion: Decreases in demand					

Description of the proposal

There are currently 1.6 FTE assigned to both the Modern Languages Department and Early Intervention/Literacy Department, both of which are based at the same school. Modern Languages is assigned 1.0 FTE while Early Intervention/Literacy is assigned 0.6 FTE.

VBE proposed to combine the two positions and reduce the FTE by 0.6.

Consultation

The Associate Superintendent of Learning Services was involved in the formation of this proposal.

Rationale

As the two departments share the same office space, combining the positions was proposed. Further, there is a planned decrease in the teacher staffing for both programs which would subsequently result in a reduced clerical workload.

Calculation

VBE anticipates that the reduced workload will allow the duties to be performed by 1.0 FTE, negating the need for an additional part time position.

Sustainability

With a planned reduction in teacher staffing, it is certainly realistic that the clerical duties for both departments could be performed by 1.0 FTE. This proposal appears to be sustainable, however it would have to be revisited if there was an increase in student numbers in future.

Proposal 10: Multicultural liaison workers

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.06	1.00
Reason for inclusion: Decreases in demand					

Description of the proposal

Multicultural Liaison Workers (MCLW) support students, families, and staff by facilitating communication where linguistic or cultural challenges arise. There are currently 19.9 FTE MCLW and 3.7 other FTE assigned to these roles. Due to a decrease in the demand for Vietnamese and Korean support in recent years, VBE proposes to reduce MCLW in these languages.

Consultation

The Director of Instruction, and District Principal of Reception and Placement were involved in the formation of this proposal.

Rationale

Vietnamese and Korean student enrolment has been declining since around 2010. A 0.5 FTE reduction of the South Asian MCLW as well as a 0.5 FTE reduction of the Vietnamese MCLW previously occurred as part of the SY2014/15 budget.

Calculation

There are currently 3.5 FTE MCLW assigned to Vietnamese students and 2.0 FTE assigned to Korean students. Vietnamese-speaking students have decreased from 2,262 in SY2010/11 to 1,768 (22% decrease) in SY2015/16. During the same period, Korean-speaking students decreased from 1,062 to 627 (41% decrease).

VBE proposes to reduce the FTE assigned to both Vietnamese and Korean by 0.5 FTE each.

Sustainability

Recent trends support the decision to reduce the staffing requirements in both of these languages. As it is not a complete elimination of the MCLW positions, it appears to be a sustainable proposal. The proposal should still be monitored closely to determine if the students are receiving adequate support.

Proposal 11: Optional elementary band & strings program

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Revenue	Educational	Ongoing	L3	0.40	5.86
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

The optional elementary band and strings program provides opportunities for elementary students to learn to play a band or string instrument. There are currently 44 elementary schools with this program. The cost to administer the program has been increasing in recent years. VBE proposes to eliminate the program.

Consultation

The Associate Superintendent of Learning Services and District Principal of Specialty Programs were involved in the formation of this proposal.

Rationale

Fees for the program were doubled in SY2015/16 due to an increase in costs to run the program. It is important to note that half of the elementary schools in the VSD have access to a music program through the regular curriculum.

The optional elementary band and strings program is viewed as an additional service to the BC curriculum requirements.

Calculation

The current situation for the program is not sustainable and VBE must implement change. If program charges are increased to a level high enough to cover costs, enrolment numbers will decline. Therefore, VBE propose to eliminate the program completely. Students will still be able to access music teaching through the regular curriculum, as well as outside of the school setting at their own cost.

Sustainability

As there are many options for students outside of the school setting and students continue to have access to a music program through the regular curriculum, this proposal appears to be sustainable.

Proposal 12: Garibaldi learning services clerical support

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.05	1.00
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

There are currently 3.0 FTE clerical support positions within the Garibaldi Learning Services department. VBE proposes to decrease the staffing by 1.00 FTE in order to reduce costs.

Consultation

The Associate Superintendent of Learning Services and Director of Instruction Learning Services were involved in the formation of this proposal.

Rationale

VBE recommended this proposal as it limits the direct impact on students and the learning environment.

Calculation

This FTE reduction was taken from the 10-month Office Support B position within the CUPE 15 Union bargaining unit.

Sustainability

Decreasing the clerical FTE assigned to this department will increase the workload of the remaining staff. It is unclear what the current capacity of the staff is and whether an increase in their workload is sustainable.

Proposal 13: District-based gifted staffing

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.07	0.70
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

Gifted Education programs provide opportunities for high-performing students to be challenged academically, intellectually and creatively.

There are currently 9.70 FTE assigned to Gifted Education Programs. VBE proposes to decrease this by 0.7 FTE.

Consultation

The Associate Superintendent of Learning Services and Director of Instruction Special Education were involved in the formation of this proposal.

Rationale

This proposal encompasses a 0.4 FTE teaching position reduction and the elimination of a 0.3 FTE educational psychologist position, both deemed necessary to help in addressing the budget shortfall.

Calculation

This proposal was calculated based on an analysis of average teacher salaries in the VSD.

Sustainability

While the specific impact of this proposal is unclear, decreasing the FTE levels will place extra pressure on the current Gifted Education staff and limit the amount of support available to students.

Proposal 14: Career information assistants

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.52	8.00
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

Career Information Assistants (CIA) assist students with guidance in career opportunities as well as provide information about available resources.

The current staffing assigned to CIA is 10.0 FTE. CIA usually split their time between the VSD high schools and the Adult Education program equally. VBE proposes to reduce this by 8.0 FTE and centralize the CIA position to perform similar tasks primarily using a technology-based delivery platform.

Consultation

The Director of Instruction and District Principal of Specialty Programs were involved in the formation of this proposal.

Rationale

This proposal was identified during a budget review with the school based principal representatives.

Calculation

It is anticipated that centralizing the current CIA role will increase efficiencies and reduce costs.

Sustainability

While the new system will reduce costs and increase efficiency, it is unclear whether it will be as effective as the previous decentralized model. Therefore, this proposal should be monitored to determine its sustainability.

Proposal 15: District vision and hearing teachers

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.09	1.00
Reason for inclusion: Decreases in demand					

Description of the proposal

Vision and hearing teachers work with students who are visually impaired or have hearing impairments. The number of students with visual and hearing impairments have been declining in recent years.

VBE propose to decrease the current 10.8 FTE assigned to the program by 1.0 FTE.

Consultation

The Associate Superintendent of Learning Services and District Principal of Special Education were involved in the formation of this proposal.

Rationale

The number of students requiring the support of vision and hearing teachers has been declining. In the last eight years, the number of students requiring vision support has decreased by approximately 33%, while in the last four years, the number of students requiring hearing support has decreased by approximately 12%.

Calculation

This proposal was calculated based on an analysis of average teacher salaries in the VSD.

Sustainability

The reduction of assigned staff may place more pressure on the remaining vision and hearing teachers. However, the declining trend of enrolment numbers indicates that this proposal appears to be sustainable. This proposal will have to be monitored and addressed if there are any significant increases in enrolment in the future.

Proposal 16: ELL District class reduction

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.11	1.14
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

There are currently three VSD programs designed to assist ELL (English Language Learning) students:

- ▶ ELL Literacy Program, for students who have had interrupted or minimal education;
- ▶ ELL I-LEAD (Intensive Language Enrichment and Development) Program, for students who have completed up to 9 years of previous formal schooling in their country of origin or in Canada; and

- ▶ ELL EMPOWER (Explore Multiple Possible Opportunities with Education and Resilience) Program, for students who want to gain skills to enable them to support themselves while continuing their education beyond age 19 in other educational settings.

VBE proposes to eliminate the EMPOWER program due to low enrolment numbers and integrate these students into the I-LEAD program.

Consultation

The Director of Instruction Learning Services and District Principal of District Reception and Placement were involved in the formation of this proposal.

Rationale

EMPOWER enrolment numbers are low with no more than three or four students enrolled, which is significantly below the program capacity of 17.

Calculation

This proposal was calculated based on an analysis of average teacher salaries in the VSD.

Sustainability

A low level of interest in the EMPOWER program makes it feasible to eliminate the program and integrate students into I-LEAD. If the I-LEAD program can assist these students in advancing their skills, then this proposal appears to be sustainable.

Proposal 17: Additional entitlements

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L3	0.21	2.29
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

Additional entitlements are additional teaching blocks provided to secondary schools with VSD programs such as Mini Schools, International Baccalaureate Programs and Trades Programs. The additional entitlements are designed to give program coordinators time to organize additional enrichment activities and allow programs to run certain classes below the regular VSD class size levels.

Of the 11.7 total additional entitlement FTE, VBE proposes to eliminate a total of 2.29 FTE from a number of programs.

Consultation

The Associate Superintendent of Learning Services was involved in the formation of this proposal.

Rationale

The additional entitlements were originally established back when there was no budget deficit. The VSD had the means to allocate additional resource time to cater towards these programs that were designed to enrich the learning of a small group of gifted students.

Due to the budget shortfall forecasted for school year 2016/2017, these additional entitlements have been deemed less of a necessity as if they relate to enrichment activities focused on a very small group of students rather than the whole student population.

Calculation

The 2.29 FTE reduction will eliminate the additional entitlements completely from some programs, while simply reducing additional entitlements in other programs.

Sustainability

The removal of additional entitlements will decrease the amount of time teachers have to prepare for classes in the affected programs. While this will impact the learning delivery, it will not eliminate programs completely and therefore this proposal appears to be sustainable.

Proposal 18: School based vice principals

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L4	0.09	0.40
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

There are currently 46 elementary school based vice-principals (VP) and 34 secondary school based VP in the VSD, allocated after considering both the size and nature of each school.

Generally, elementary schools with over 400 students are provided one VP. All secondary schools have at least one VP and secondary schools with over 1000 students are provided a second VP.

Over and above this general staffing ratio, decisions to add or reduce VP allocations are made on a case by case basis considering the complexity of the school site.

VBE proposes to eliminate two VP roles from the current 80 FTE assignment.

Consultation

The Associate Superintendent of Employee Services was involved in the formation of this proposal.

Rationale

A review of staffing levels within the VSD prompted this proposal to be recommended.

Calculation

VSD average VP salaries were analyzed along with average teacher salaries.

Sustainability

Eliminating two VP positions will place a greater workload on the remaining VP's at the affected sites. The ability of the staff to take on the increased workload will impact the sustainability of this proposal.

Proposal 19: Special education staffing

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L4	0.21	2.28
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

There are currently 1.14 FTE additional special education staff assigned to both Templeton and Kitsilano High Schools. These staff are engaged to support students entering Grade 8 and who were awaiting placement into a VSD special education program.

VBE proposes that the additional Special Education staffing at Templeton and Kitsilano High School is eliminated. Kitsilano will still have 3.0 FTE of special education staffing remaining, and Templeton will still have 2.28 FTE.

Consultation

The Director of Instruction Learning Services was involved in the formation of this proposal.

Rationale

The 1.14 FTE assignments were implemented in both schools several years ago to assist with the transition of the special education students.

Calculation

This proposal was calculated based on an analysis of average teacher salaries in the VSD.

Sustainability

The elimination of the additional staff will reduce the ability of the affected schools to assist special education students. The ability of the staff to adapt to the increased workload will impact the success of the proposal and should be monitored.

Proposal 20: Secondary teacher staffing

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L4	1.33	14.86
Reason for inclusion: Increase operational efficiency and flexibility; existing regulations					

Description of the proposal

VBE is proposing to adjust the Staff Educator Ratio (SER) in non-exempt classes from 30:1 to 33:1. The proposal will result in a reduction of secondary school staffing levels by 14.86 FTE.

There are some costs associated with this as outlined in section 4(1) of the Class Size and Compensation regulation. At this time, the VSD is unable to quantify how much compensation will have to be paid as a result of increasing the SER. However, even after considering these costs, it is estimated that there are significant net savings in total staff salary reductions that will be realized.

The savings of \$1.33M does not include a cost estimate, and actual results will be lower once the remediation is paid out.

Consultation

The Associate Superintendent of Employee Services was involved in the formation of this proposal.

Rationale

A review of teacher staffing levels across the VSD prompted this proposal to be recommended.

Calculation

Eliminating 14.86 FTE from the staff will result in a new SER of 33:1.

Sustainability

VBE have stated that even with the proposed staff reduction, they will endeavour to keep class sizes at or below the 30 student mark. The ability of the staff to adapt to the increased workload will impact the sustainability of this proposal. It is recommended that the SER is monitored closely following implementation of this proposal.

Proposal 21: International Education teacher staffing

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L4	0.61	6.67
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

VBE regulations provide additional teachers to schools with international education students. The current formula allocates 1.0 FTE for every 22 international education students enrolled.

VBE proposes to increase the student level to 24 students before an additional FTE is assigned.

Consultation

The Superintendent and Associate Superintendent of Employee Services were involved in the formation of this proposal.

Rationale

A review of teacher staffing levels across the VSD prompted this proposal to be recommended.

Calculation

Based on current enrolment levels, VBE concluded that by changing the formula to a ratio of 1.0 FTE for every 24 international education students, 6.67 FTE fewer teachers would be required.

Sustainability

The change to the ratio is not substantial, representing an increase of just over 10%. It is anticipated that this proposal will be sustainable; however, the ability of the staff to adapt to the changes will impact the success of the proposal.

Proposal 22: Enhanced services literacy teachers

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L4	0.28	3.00
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

Enhanced services literacy teachers provide intensive learning support to the VSD's most vulnerable students. There are currently 12.0 FTE assigned to this program.

VBE proposes to eliminate funding of 3.0 FTE from the general operating budget and instead have these staff be funded from specific grants.

Consultation

The Associate Superintendent of Learning Services was involved in the formation of this proposal.

Rationale

The 12 enhanced service literacy teacher positions were created as part of the Revisioning Report presented to VBE in 2014, after the reconfiguration of previous services provided to these students.

Calculation

VBE recommend that of the 3.0 FTE eliminated from the operating budget, 2.0 FTE is funded from the dedicated Education Fund grant and 1.0 FTE from Education Plan funding. The Education Fund is a separate grant that is provided by the MEd within the operating grant that is dedicated to early literacy issues. The education plan is a special purpose fund provided by the MEd that was introduced in 2012 to deal with class size and other issues that must be spent on teaching and support staff in the classroom.

Sustainability

The sustainability of this proposal is dependent on VBE obtaining the required funding. If funding is successfully obtained, there will be no reduction on the total FTE assigned and the impact will be minimal. VBE represented to EY that obtaining funding to offset the effect of this proposal is of the highest priority of all proposals made to balance the current budgetary deficit.

Proposal 23: Elementary non enrolling staffing

Proposal type	Operational area	Nature	Impact Level	Impact (\$M)	FTE
Expense	Educational	Ongoing	L4	0.46	5.00
Reason for inclusion: Increase operational efficiency and flexibility					

Description of the proposal

Elementary schools are currently assigned staff in two main categories; enrolling staffing and non-enrolling staffing. Class size restrictions limit the ability of VBE to reduce the number of enrolling staff. However, non-enrolling staff is currently allocated as part of a large pool and are not specifically designated to an individual school. Non-enrolling staff service the areas of ELL (English Language Learning), special education, aboriginal and library, and can be reallocated between them as needed.

VBE proposes to reduce the non-enrolling staff levels by 5.0 FTE.

Consultation

The Associate Superintendent of Employee Services was involved in the formation of this proposal.

Rationale

A review of teacher staffing levels across the VSD prompted this proposal to be recommended.

Calculation

VBE propose to eliminate 5.0 FTE positions from the base staff level of approximately 1,600 FTE, representing a minimal decrease of 0.3%.

Sustainability

The minimal reduction from base staff levels indicates that this proposal appears to be sustainable. At a broad level, the effects appear to be negligible. However, effects may be more concentrated in their impact. For example, VBE noted that this reduction may impede a school's ability to offer a dedicated school librarian position – a specialized role currently included in non-enrolling staffing.

Revenue opportunities and operating cost efficiencies

7 Revenue opportunities and operating cost efficiencies

7.1 Background

In the previous sections we addressed prior year recommendations, the budget process, current year budget proposals and how VBE has proposed to address the projected deficit in SY2016/17 of \$21.8M. In this section, we will review opportunities to enhance revenues and reduce operating costs. This discussion will be organized as follows:

For revenue opportunities, this discussion will provide:

- ▶ an overview of the components of revenue and trends over the past several years;
- ▶ a review of benchmarking revenues to representative subset districts;
- ▶ a summary of revenue opportunities foregone; and
- ▶ a review of investment strategies for excess cash.

For operating cost efficiencies, this section will provide:

- ▶ an overview of the breakdown of operating expenses and trends in these expenditures;
- ▶ a review of benchmarking salaries and benefits to representative subset districts;
- ▶ a review of benchmarking key operating metrics;
- ▶ an analysis of labour cost comparisons; and
- ▶ a discussion of VSD's Collective Agreements and restrictive provisions within these agreements.

With respect to revenue, there are two key components. These include provincial grants from the MEd, which account for the majority of total revenues and fees, rentals and other revenue, which account for the remainder.

In terms of operating costs, EY discussion will center on salaries and benefits as it represent over 90% of total expenses, while services and supplies make up the balance. Benchmarking on other operating cost categories have been included as Appendix J.

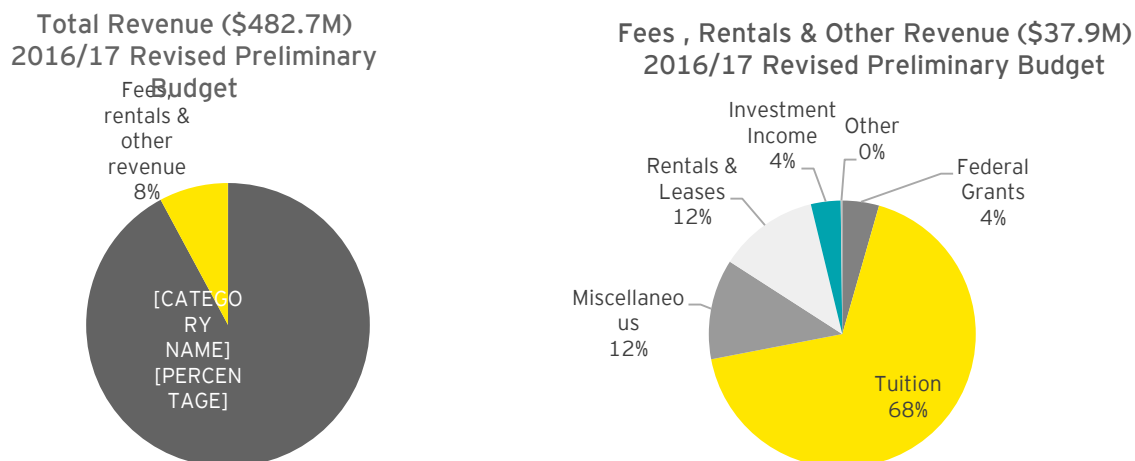
7.2 Revenue opportunities

7.2.1 Introduction

In reviewing the revenue opportunities for the VSD, this discussion will start by reviewing trends in revenue over the past several years. In order to help identify potential sources of revenue growth, this section will then compare VSD's revenue results to its representative peer districts. Discussion will then turn to presenting a summary of revenue opportunities foregone and will close with a review of investment strategies for excess cash.

As outlined in the chart below, 92% of VBE revenues (based on the 2016/17 revised preliminary budget) are derived from provincial grants from the MEd with 8% coming from fees, rentals and other revenue.

Figure 22



Source: Budget proposal summary provided by VBE; EY analysis

Of this other revenue from fees, rentals and other sources, tuition by far is the largest contributor (66% of current year's budget). Approximately 95% of tuition in the 2016/17 budget relates to offshore tuition fees generated from students who are not resident in a British Columbia school district, with the remaining 5% split between summer school fees and continuing education. The next largest contributor is miscellaneous revenue (14% in SY2016/17 budget - which includes cafeteria revenue, donations, paid parking), followed by rentals and leases (11%).

The amount of MEd provincial grant funds is determined by a provincial funding formula based on enrolment. In light of this, it has been assumed that there is no opportunity to increase MEd Provincial grant revenue. As such, this review has focused on opportunities to increase revenue from:

- ▶ Tuition - Offshore tuition fees,
- ▶ Rentals and leases
- ▶ Other revenues - miscellaneous where the VBE may have an influence.

7.2.2 Trends in revenue

Total revenue and its components are presented in the tables below for the past four fiscal years in addition to the current year's balanced preliminary budget (SY2012/13 - SY2016/17B). Given the link between enrolment and provincial funding for grant revenue, enrolment figures are also presented in the table below.

It is noteworthy that FTE enrolment has declined 5.8% from SY2012/13 to SY2015/16, and is projected to be essentially flat in the current year's budget compared to the prior year (declining 0.2%).

Consistent with declining enrolment, provincial grant revenue has fallen 2.1% over the past four years, and is expected to decline another 0.7% in the current year's budget.

Conversely fees, rentals and other revenue have grown 23.6% over the historical period presented and are projected to rise 0.5% in SY2016/17B. New revenue sources over the past four years have been generated from tuition (+\$6.7M, or +37%) and rentals and leases (+\$0.8M, or +23%). The net result on total revenues was a 0.5% decline from SY2012/13 to SY2015/16, and the current year's budget is forecasting a decline of 0.6% year-over-year.

Figure 23

Revenue by category					
\$	Audited	Audited	Audited	Unaudited	Balanced prelim
	2012-13	2013-14	2014-15	2015-16	2016-17B
FTE Enrolment	55,440	54,534	51,384	52,240	52,119
% Change in Enrolment	N/A	(1.6)%	(5.8)%	1.7%	(0.2)%
Provincial MEd Grants	457,504,398	440,364,419	435,952,653	448,036,127	444,752,146
Fees, rentals & other revenue	30,536,796	30,417,392	34,517,225	37,733,183	37,933,408
Total Revenue	488,041,194	470,781,811	470,469,878	485,769,310	482,685,554
Fees, rentals & other revenue					
Federal Grants	-	-	1,891,078	2,035,012	1,680,517
Tuition	18,001,372	20,295,827	22,625,820	24,718,785	25,618,991
Miscellaneous	7,840,168	5,047,426	4,652,302	5,341,335	4,602,836
Rentals & leases	3,363,519	3,486,964	3,480,084	4,146,434	4,593,207
Investment Income	1,285,992	1,526,182	1,707,200	1,428,485	1,369,138
Other	45,745	60,993	160,741	63,132	68,719
Total fees, rentals & other revenue	30,536,796	30,417,392	34,517,225	37,733,183	37,933,408

Source: VBE audited and unaudited financial statements, preliminary budget information and internal documents

It is noteworthy that the teachers' strike, which started in June 2014 and continued into September 2014, directly impacted school operations and kept students out of classrooms at the end of SY2013/14 (June 2014) and the beginning of SY2014/15 (summer school for July and August of 2014, and regular school for September 2014). As such, the strike caused some distortion around variances for school years 2013/14, 2014/15, and 2015/16. For example, summer school was cancelled in SY2014/15 on account of the teachers' strike, which drove down student enrolment compared to expectations as VBE had budgeted to have 1,906 FTE students enrolled in summer school that year. If this budgeted figure is included for SY2014/15, the change in FTE students from SY2014/15 to SY2015/16 amounts to negative 2.0%, compared to the actual change of positive 1.7%. By the same token, we would expect that there was an impact on revenues (i.e. the growth of 2.8% in SY2015/16 vs. SY2014/15 is arguably inflated). Having said this, the general trend over the past four years has been one of largely flat revenues amidst a back drop of declining enrolment. Growth in fees, rentals and other revenue has been helping to offset declines in provincial grant revenue.

The above noted trend is also apparent when looking at the shift in mix as shown in the table below. Consistent with declining enrolment levels, Provincial grant revenue as a percentage of total revenue has declined from 93.7% in SY2012/13 to 92.2% in SY2015/16, and is expected to account for 92.1% of total revenue in SY2016/17. Conversely, fees, rentals and other revenue have increased from 6.3% in SY2013/14 to 7.8% in SY2015/16, and are budgeted at 7.9% of total revenue in SY2016/17.

Figure 24

Revenue % breakdown by category					
	Audited	Audited	Audited	Unaudited	Balanced Prelim
	2012-13	2013-14	2014-15	2015-16	2016-17B
Enrolment	55,440	54,534	51,384	52,240	52,119
% Change in Enrolment	N/A	(1.6)%	(5.8)%	1.7%	(0.2)%
Provincial MEd Grants	93.7%	93.5%	92.7%	92.2%	92.1%
Fees, rentals & other revenue	6.3%	6.5%	7.3%	7.8%	7.9%
Total Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Fees, rentals & other revenue					
Federal Grants	N/A	0.0%	5.5%	5.4%	4.4%
Tuition	58.9%	66.7%	65.5%	65.5%	67.5%
Miscellaneous	25.7%	16.6%	13.5%	14.2%	12.1%
Rentals & leases	11.0%	11.5%	10.1%	11.0%	12.1%
Investment Income	4.2%	5.0%	4.9%	3.8%	3.6%
Other	0.1%	0.2%	0.5%	0.2%	0.2%
Total fees, rentals & other revenue	100.0%	100.0%	100.0%	100.0%	100.0%

Source: VBE audited and unaudited financial statements, preliminary budget information and internal documents

7.2.3 Benchmarking revenues

In order to assist in identifying opportunities for additional revenue, we have examined how VBE's results have compared to a representative subset group of districts.

The reader should be cautioned that the benchmarking detailed below is based on actual audited financial results reported for SY2014/15. At the time of writing this report, actual results for SY2015/16 for all school districts were not yet available. Year-over-year variances in this section reflect comparisons of SY2014/15 to SY2013/14. For benchmarking purposes, we assume all subset districts have moved in parallel from SY2013/14 to SY2014/15.

Benchmarking against a representative subset gives us the ability to assess performance of VBE against the subset and helps us understand the potential revenue opportunities if VBE were to achieve best-in-class performance levels (if it is not already doing so).

Methodology

The subset districts used for benchmarking revenues are the same as those used in the EY 2015 Report, and include the following districts: Burnaby, Central Okanagan, Coquitlam, North Vancouver, Richmond, Surrey, and West Vancouver (collectively, the “Subset Districts”). These school districts were selected in light of similar characteristics such as size of revenues and geographical proximity to Vancouver. The Central Okanagan district was an exception to the latter point, with priority given to the size of its revenue base.

The lowest performing 25%, median and best performing 25% figures shown in the charts are based on all school districts in the Province of BC, not just the Subset Districts.

The benchmarking for revenues focuses on non-provincial grant revenue (fees, rentals and other revenue) as these are the revenues that VBE can influence (at least to a certain extent), in comparison to MEd provincial grants, which are determined by the provincial funding formula and linked to enrolment.

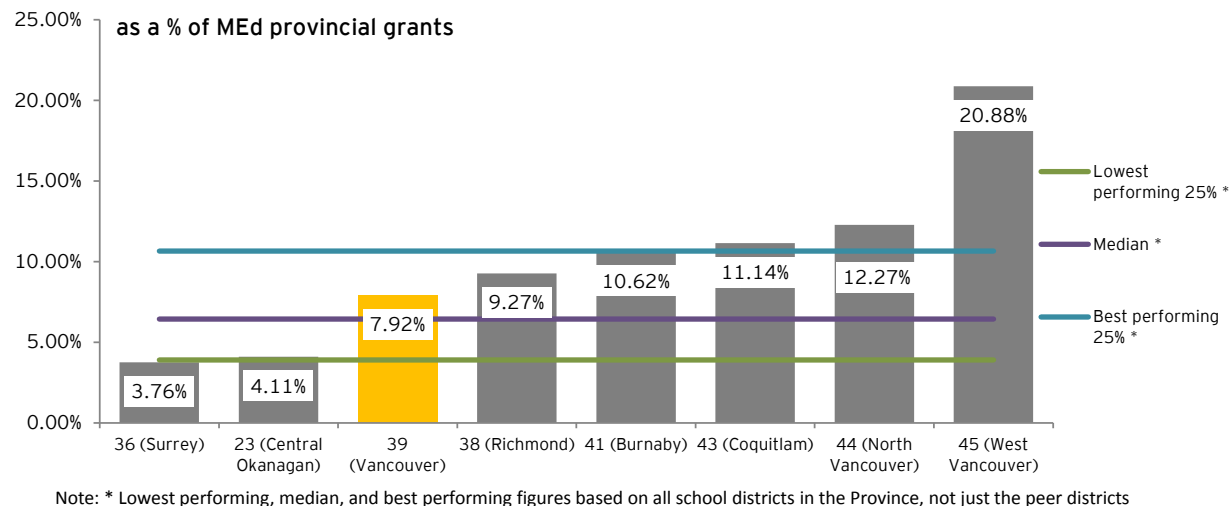
This analysis compares VBE to its Subset Districts for total fees, rentals and other revenues, (revenue from sources other than MEd provincial grants) as a percentage of total MEd grants with its Subset Districts. This approach has been taken to facilitate comparisons in light of the large range of revenues across the peer districts. For example, Surrey had the largest revenue base in the province of \$593M in SY2014/15, while West Vancouver had the smallest revenue base in the peer group of \$66M, and the median figure for the peer districts was \$187M. Vancouver’s revenues in SY2014/15 totaled \$470M, the second highest figure in the province behind Surrey.

Non-Provincial grant (MEd) revenue

The chart below presents these findings for SY2014/15. VBE’s position relative to Subset Districts compared to last year did not change but this percentage improved from 6.91% to 7.92%. Other Subset Districts ranking ahead of VBE showed increases in a similar range. In terms of absolute value, revenue for VBE was up 13.5% (+\$4.1M) to \$34.5M, as presented under the chart. This year-on-year variance primarily related to offshore tuition fees (+\$3.9M), federal grants (+\$1.9M), continuing education tuition fees (minus \$0.9M), and miscellaneous district entered revenue (minus \$0.4M).

Figure 25

SY2014/15 Benchmarking



\$M	21.5	7.3	34.5	15.9	20.3	27.7	15.4	11.4
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Source: MEd provided financial information and data

In comparison to all the school districts in the Province, VBE received the highest absolute amount of total non-MEd provincial grant revenue in SY2014/15, but was slightly above a median performer in relative terms. The lowest performing 25%, median and best performing 25% figures in the chart above are based on all school districts in the Province of BC, not just the Subset Districts. A number of VBE's Subset Districts, including West Vancouver, North Vancouver, Coquitlam and Burnaby, receive a larger portion of their total revenues from sources other than MEd provincial grants.

It is our understanding based on discussions with VBE that the large variance between Vancouver and other stronger performing school districts with respect to non-provincial grant revenue as a percentage of MEd grants relates to these other districts earning additional international student enrolment revenue and rental revenue on schools that have been closed. For example, offshore tuition fees accounted for 16.8% of MEd provincial grants for West Vancouver. Comparable figures for Coquitlam, Burnaby, and Richmond were 9.3%, 8.6% and 7.6%, respectively. North Vancouver generated other miscellaneous revenue (including income from donations, sponsorships, paid parking, cafeterias, and other items), which accounted for 3.7% of MEd provincial grants, while its rental revenue comprised 1.4%.

Revenue stream categories for benchmarking purposes

As noted in the pie charts and tables above, fees, rentals and other revenue can be split into six revenue streams. We performed benchmarking on each of these revenue streams and sub-categories; however, in the charts below, we present findings for three of these six categories. The analysis below only includes categories where more substantial changes were identified. These revenue categories include:

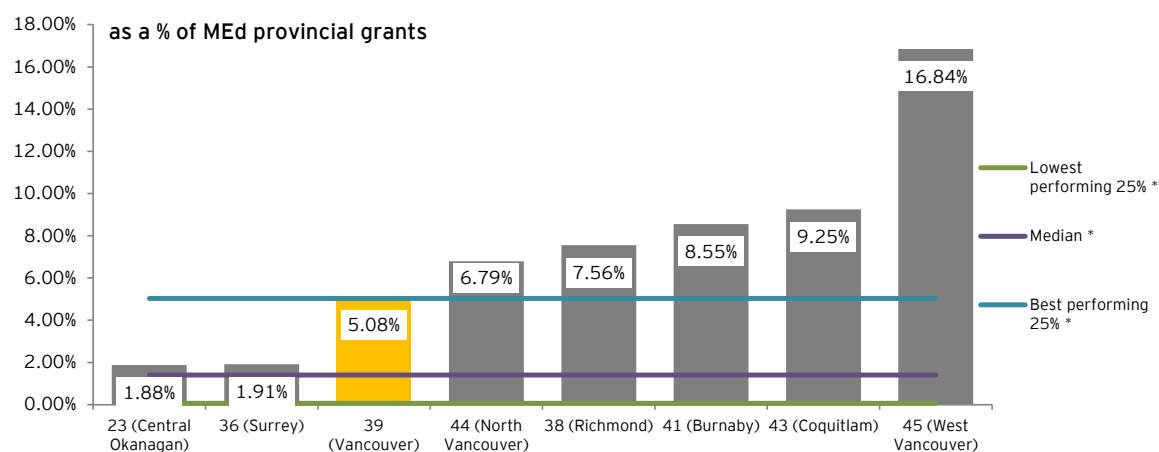
- ▶ Tuition - Offshore tuition fees;
- ▶ Rentals and leases; and
- ▶ Other revenues - miscellaneous where the VBE may have an influence.

Tuition - Offshore tuition fees

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

Figure 26

SY2014/15 Benchmarking



Note: * Lowest performing, median, and best performing figures based on all school districts in the Province, not just the peer districts

\$M	3.3	10.9	22.1	8.5	12.9	16.3	23.0	9.2
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Source: MEd provided financial information and data

VBE's revenue from offshore tuition fees for SY2014/15 grew 21.4% to \$22.1M from \$18.2M in the previous year. Its relative position amongst Subset Districts did not change but as a percentage of MEd provincial grants, offshore tuition fees accounted for 5.08% vs. 4.14% in the prior year.

Of all the BC school districts, VBE received the second highest absolute revenue of \$22.1M in offshore tuition in SY2014/15 (behind Coquitlam, \$23.0M), and was almost in the top quartile when revenue is taken as a percentage of MEd provincial grants.

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

VBE's tuition fees were set to increase to by \$1,000 per student to \$14,000/year in SY2016/17 (from \$13,000 in SY2015/16), which should better align VBE with West Vancouver's offshore tuition fee of \$14,200/year, leaving little opportunity to change tuition fees further, in the short term.

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

international students in East-side schools. VBE is targeting an increase of 100 international students across the district in SY2016/17.

The VBE is monitoring international enrolment to ensure that it is able to accommodate in-catchment students wherever possible. International students are placed where there is capacity; however, as some schools have approached or reached capacity, the number of international students placed has been reduced or significantly limited. If schools were to be closed, it is expected that there would be fewer spaces available for international students and Vancouver would contemplate capping the total number of international students in the district.

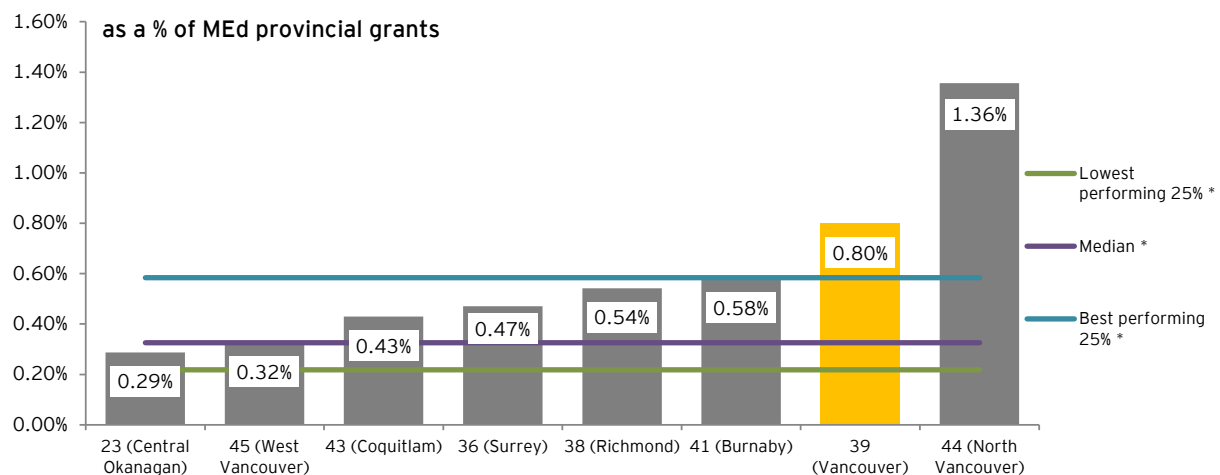
Recommendation #7: VBE should undertake a market sounding respecting international students to determine the elasticity of demand relative to tuition pricing. While we understand the competitive nature of the environment in which the VBE competes for international students, we also recognize the significant demand that exists for placement of international students within the bounds of the VBE. With a current international student population of 1,126 students, each \$1,000 tuition increase represents an additional \$1.126 M in revenue; there is a profit optimization point between international student enrolment and tuition pricing that should be determined by the VBE.

Rentals and leases

The following chart presents the benchmarking of all revenues from fees paid to schools for rentals of facilities owned by the school district.

Figure 27

SY2014/15 Benchmarking



Note: * Lowest performing, median, and best performing figures based on all school districts in the Province, not just the peer districts

\$M	0.5	0.2	1.1	2.7	0.9	1.1	3.5	1.7
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Source: MEd provided financial information and data

VBE's revenue from rentals and leases (excluding local capital) for SY2014/15 was unchanged at \$3.5M compared to the prior year. Its relative position amongst Subset Districts did not change either.

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In comparison to its peer districts, Vancouver was second only to North Vancouver, when rental and lease income is considered as a percentage of MEd provincial grants. When reviewing the same metric, VBE performed in the top quartile across all school districts in the Province. It also had the highest absolute amount of rental and lease revenue of \$3.5M in SY2014/15 for its operating fund.

VBE's Facilities team performed a rental rate review in 2016, similar to that performed in the prior year. On June 20, 2016, the Board approved a motion, that the rental rates for gyms and filming be increased by 5% per annum over the next three years and that the newer gym facility rental rates be tiered by a 10% premium over the regular rates from older gym facilities. Filming rates were also increased by 5%.

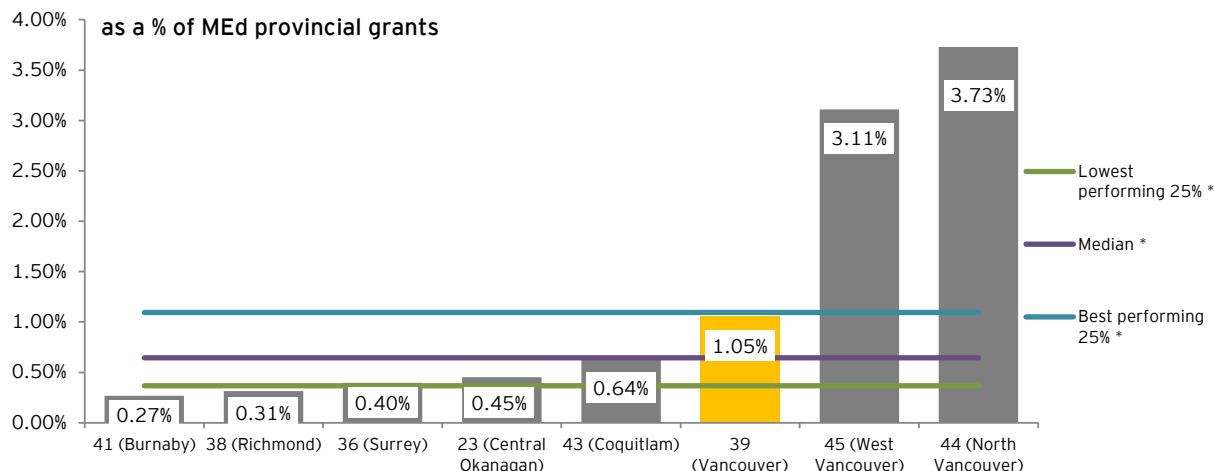
The benchmarking above suggests that if VBE were to achieve the level of North Vancouver, revenues could increase by \$2.4M. While Vancouver's performance is best-in-class with respect to rentals and lease revenue, other opportunities to generate incremental revenue have been outlined in the following sections of this report.

Other revenues - miscellaneous - district entered

The following chart presents the benchmarking of revenues received which do not fall into the above mentioned revenue streams (includes income from donations, sponsorships, paid parking, cafeterias, and other items).

Figure 28

SY2014/15 Benchmarking



Note: * Lowest performing, median, and best performing figures based on all school districts in the Province, not just the peer districts

\$M	0.5	0.5	2.3	0.8	1.6	4.6	1.7	4.7
-----	-----	-----	-----	-----	-----	-----	-----	-----

Source: MEd provided financial information and data

For other miscellaneous revenue, as a percentage of MEd provincial grants, VBE's relative position amongst its Subset Districts did not change. In absolute dollar terms, VBE performed second highest among its Subset Districts, with miscellaneous revenues amounting to \$4.6M in SY2014/15 (down 8.0% from \$5.0M reported in the prior year). Out of all the districts in the Province, VBE was just below

top quartile when miscellaneous revenues are considered as a percentage of Provincial grants provided by the MEd.

Based on our discussions with VSD Management, it is our understanding that both North Vancouver and West Vancouver's revenues for this category are driven by their programs of choice and sports academies (i.e. North Vancouver has various academies and programs, including its Cheakamus Centre outdoor school, various sports academies, and its Artists for Kids programs).

While VBE is near best-in-class in this revenue stream, other opportunities exist as explained in the next section on revenue opportunities foregone.

7.2.4 Summary of revenue opportunities foregone

In this section we detail revenue opportunities that would enhance the benchmarking performance of VBE relative to its Subset Districts and may affect the relative performance metrics of the VBE relative to the Subset Districts as outlined in the benchmarking analysis completed above.

There are various revenue opportunities, which the VBE has foregone that could be revisited. The following table provides a summary of revenue opportunities foregone thus far. If the VBE were to revisit these opportunities, the range of estimates in potential net revenue, net of costs, amounts to between \$1.79M to \$3.05M, in addition to other amounts, which have yet to be determined.

Figure 29

Revenue opportunities foregone					
#	Opportunity	Decision	Commentary	Revenue foregone	Source
1	Chevron "Fuel Your School" Program Under the program, Chevron will donate \$1 for every 30 liters of gas bought at local stations, up to \$565,000.	Rejected	There are currently no Vancouver schools applying to participate in the program. Previous attempts by Chevron to sponsor and provide funding to the VBE have been rejected as it was determined that the proposals violated board policy on corporate funding. The VBE has strict policies on sponsorships and marketing, and donations received must not come with the expectation of advertising.	Up to \$565,000 per annum	Vancouver Sun Article, September 6, 2016 titled: "Chevron-backed school funding program fuels interest in B.C."
2	Pay parking for teachers Original proposal was a nominal monthly parking fee of \$20 to cover the maintenance costs of 3,500 parking lot spaces. The estimated gross revenue was \$840,000 and the net	Rejected	The proposed parking administration company suggested, after consideration of the maintenance costs and admin costs associated with the program, that the parking fee should be increased from \$20 to \$50 per month to generate revenues of \$2.1M. Keeping costs of the	\$100,000 to \$1.36M per annum or \$100,000 to \$0.39M if 50% utilization at \$50	Vancouver School District Preliminary Budget Proposals for SY2016/17 dated June 9, 2016

Revenue opportunities foregone

#	Opportunity	Decision	Commentary	Revenue foregone	Source
	revenue was \$175,000 after taking into consideration the estimated costs of administration of \$665,000 and an expected attrition rate as a result of implementing the fee. After consultation with teachers groups, the proposal was modified from charging \$20 per month, to charging only for after-hours parking. The net revenue was reduced to \$75,000.	Accepted	administration company consistent at \$665,000 and maintenance at minimum amounts, the profit could be \$1.435M (as a result of revenues of \$2.1M less costs of \$0.665M). There is also a possibility that increasing the fee to \$50 per month could result in decrease in utilization due to demand elasticity. Assuming a 50% utilization, the potential net revenue could decrease to \$0.39M (as a result of revenues of \$1.1050M less costs of \$0.665M).		
3	Leasing properties to Day Cares	Rejected	This proposal was explored for the possibility of leasing space to for-profit daycare entities. VSD's Management indicates that there was legislation introduced last year (Section 85.1 (3) (b) of the School Act), which limits the amount that can be charged to childcare providers to cost recovery for all forms of child care, preschool and afterschool care. This legislation stipulates that "any revenue obtained from childcare providers is not more than the direct and indirect costs incurred".	TBD	VSD's management
4	Leasing existing surplus assets to other private education institutions	Rejected	On June 15, 2016, the VBE resolved that leasing of school space be restricted away from independent schools. Refer to the Long Range Facilities Plan section for further explanation in this regard.	\$5.2M	EY analysis
5	Consideration of a business development team which could potentially result in: - Sale of necessities and the provision of ATMs on school property; - Exploring partnerships and sponsorships with various organizations; - Sale of licenses for manufacturing clothes with school branding; and - Various other marketing opportunities.	Post-poned	The VBE has contemplated the cost and benefits of establishing a business development team, and concluded that at this point in time, establishing one would not be feasible. Refer to in relation to review of the recommendations of the EY 2015 Report for further details.	Negative cash flow of \$(116,000) per year for two years and positive cash flow thereafter	Vancouver School District Preliminary Budget Proposals for SY2016/17 dated June 9, 2016

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Revenue opportunities foregone					
#	Opportunity	Decision	Commentary	Revenue foregone	Source
6	Increasing tuition fees for international students	Proposed	As aforementioned in the revenue benchmarking section there is an opportunity for the VBE to undertake a market sounding respecting international students to determine the elasticity of demand relative to tuition pricing.	\$1.126M per \$1,000 increase in tuition	EY analysis

7.2.5 Investment strategies for excess cash

A potential revenue opportunity relates to investment strategies for the VBE's excess cash balance on deposit with the Province of BC under the Central Deposit Program, which has ranged from \$90 to \$100M in the past two school years. This section reviews some scenarios for potential returns that could be realized if the cash currently invested with the Province was invested in other vehicles.

The Central Deposit Program was started in Q1 of 2013, and the balance on deposit was steadily increased at the request of the Province. For the past two years, the amount has fluctuated between \$90 and \$100M. The Central Deposit program currently provides an annualized return of 1.7%.

For comparison purposes, EY has outlined three possible alternative investment strategies including investing the funds with RBC - PH&N, BCIMC, and purchasing Government of Canada bonds.

The table attached in Appendix H presents the differential in annual returns between investing the average savings amount of approximately \$94M (Q1/2015 through Q4/2016) with the Province's Central Deposit Program, in comparison to the three alternatives amongst various investment products. These calculations assume returns based on historical averages for these investment vehicles over various time frames. Based on these assumptions, the range of incremental returns is as follows:

- ▶ RBC - PH&N money market and fixed income: (\$1.3M) to \$7.4M
- ▶ BCIMC pension returns based on balanced fund portfolio: \$4.6M to \$5.8M
- ▶ Government of Canada bonds: (\$0.9M) to \$1.7M

Subject to the investment objectives of the VBE and restrictions on this excess cash (i.e. liquidity requirements/time horizon, risk/reward profile and other factors), these calculations and underlying assumptions suggest there could be opportunities to generate excess returns outside of the Province's Central Deposit Program.

Recommendation #8: VBE should consult with the Province to explore opportunities of achieving a greater financial return on the funds on deposit under the Central Deposit Program. We have identified an available amount of approximately \$94M (associated with long term liabilities and other capital needs) that may be invested for differing investment periods (aligned with usage needs) to achieve greater economic return to the VBE.

7.3 Operating cost efficiencies

7.3.1 Introduction

In examining opportunities for VBE to drive cost efficiencies, this review will start with the background of what these costs are comprised of and recent trends in operating expenses. As outlined in the chart below, 93% of VBE's \$489.5M in operating expenses (based on the SY2016/17 revised preliminary budget) relate to salaries and benefits, with 7% coming from services and supplies (i.e. professional services, contractor services, supplies, student transportation, and utilities).

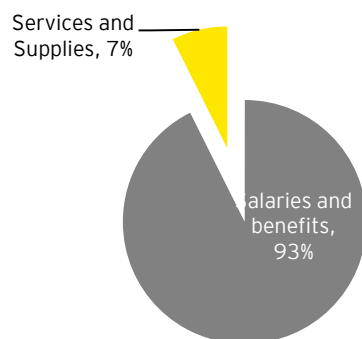
As salaries and benefits form the majority of operating costs, EY's discussion will focus on this cost category. EY will highlight benchmarking comparisons against the Subset Districts specifically on salaries and benefits, with benchmarking of other cost categories included as Appendix J. The discussion will then consider labour cost comparisons for VBE relative to its Subset Districts and will conclude by outlining the impact of collective agreements on VBE's cost structure.

Specifically, EY's analysis has identified that the key obstacle to achieving salaries and benefits efficiency for the VSD is related to certain restrictions contained in the collective agreements. These restrictions negatively affect the key operating metrics of the VSD, when compared to its Subset Districts, with reference to both the student to staff ratio and the square feet per student ratio.

These key operating metrics will be explained in further detail below.

Figure 30

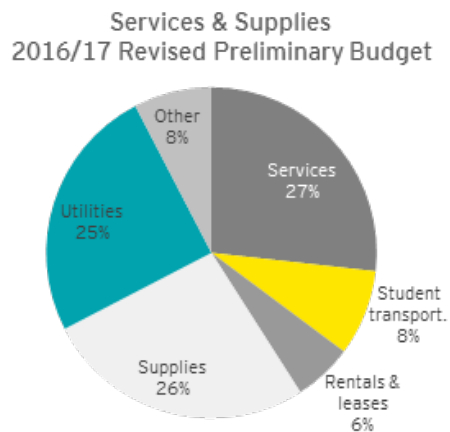
**Operating Expenses by Category
2016/17 Revised Preliminary Budget
(\$489.5 M)**



Source: 2016/2017 budget proposal summary provided by VBE; EY analysis

With respect to services and supplies expenses, which make up 7% of total operating expenses in the current year's budget, the top three categories represent 78% of the total services and supplies costs and included services (27% - contracted services, consulting, professional fees, computer maintenance, telecommunications), supplies (26% - instruction, furniture and fixtures, computers, books/publications, cafeteria, custodial/maintenance supplies), and utilities (25%). Student transportation, rentals and leases, and other expenses made up the balance.

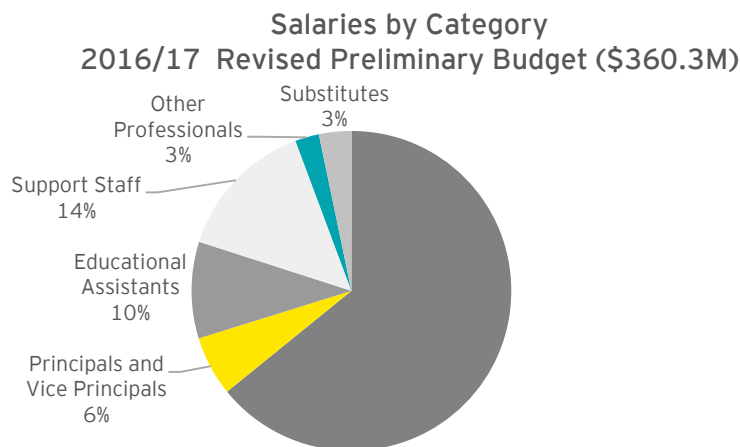
Figure 31



Source: Budget proposal summary provided by VBE; EY analysis

A breakdown of the salaries by employee category is provided in the chart below. Teachers are expected to account for 64% of the total salaries in the SY2016/2017 budget, followed by support staff (14% of total salaries), and educational assistants (10% of total salaries), with principals and vice principals, substitutes and other professionals comprising the remaining 6%, 3% and 3% of total salaries, respectively.

Figure 32



Source: Budget proposal summary provided by VBE; EY analysis

7.3.2 Recent trends in operating expenditures

Total operating expenses, its components, and enrolment figures are presented in the tables below for the past four fiscal years and for the current year's budget (SY2012/13 - SY2016/17B).

While enrolment has declined, operating expenses have increased. Enrolment is down 5.8% from SY2012/13 to SY2015/16, while total operating expenses are up 4.2%. In the current year's budget, enrolment is expected to be relatively flat, decreasing 0.2% from the prior year. Salaries and benefits have increased 3.6% over the historical period presented below but are projected to decrease 1.7% in the most recent budget proposal for SY2016/17. Services and supplies have increased at a faster pace, rising 12.0% over the past four years but are projected to decrease 3.8% in the year ahead. Services expenses have been the main sub-category driving growth in services and supplies since SY2012/13. These costs have jumped 53%, or \$4.5M over this period.

Figure 33

Operating expenses by category					
\$	Audited	Audited	Audited	Unaudited	Balanced Prelim
	2012-13	2013-14	2014-15	2015-16	2016-17B
FTE Enrolment	55,440	54,534	51,384	52,240	52,119
% Change in Enrolment	N/A	(1.6)%	(5.8)%	1.7%	(0.2)%
Salaries and benefits	444,814,597	430,172,968	438,685,679	461,036,073	453,359,812
Services and supplies	33,542,357	33,633,450	34,545,337	37,580,186	36,169,053
Total operating expenses	478,356,954	463,806,418	473,231,016	498,616,259	489,528,865
Services and supplies					
Services	8,503,236	8,659,555	9,554,643	13,003,878	9,688,773
Student transportation	2,707,510	2,752,757	2,685,925	2,813,434	3,035,095
Rentals and leases	880,320	879,740	1,449,748	1,440,570	2,086,659
Supplies	11,287,254	10,251,900	10,046,503	10,261,238	9,564,383
Utilities	7,444,123	8,404,013	7,564,553	7,158,356	9,036,777
Other 1	2,719,914	2,685,485	3,243,965	2,902,710	2,757,366
Total services and supplies	33,542,357	33,633,450	34,545,337	37,580,186	36,169,053

Source: Audited financial statements for SY2013/14 - 2014/15; 2016/2017 budget proposal summary provided by VBE for SY2015/16 and for budget figures.

Notes:

- (1) Services and supplies included in "Other" category include insurance, professional development & travel, dues & fees, and interest.

As was the case for revenues, the teachers' strike, which continued into September 2014, has affected year-over-year variances. In SY2015/16, total operating expenses were up 5.4% from the prior year, reflecting a 5.1% increase in salaries and benefits and an 8.8% increase in services and supplies.

The strike resulted in salary cost savings of ~\$18M in SY2014/15, with these costs returning in SY2015/16. There was also a wage increase for unionized groups and the reinstatement of salary increases for principals and vice-principals which came into effect in SY2015/16.

Services and supplies in SY2015/16 incurred charges from the PeopleSoft / HCM licensing and implementation (~\$1.0M). There were also costs the MEd charged for licensing and implementation of the Next Generation Network (~\$1.3M). Other areas of spending on services and supplies also increased due to deferrals from the prior year as a result of the strike. As shown in the table below on the break-down of operating expenses, salaries and benefits made up 93.0% of total expenses in SY2012/13, and gradually declined to 92.5% in SY2015/16. In the current year's budget, they are expected to make up 92.6% of total operating expenditures. At the same time services and supplies has increased from 7.0% in SY2012/13 to 7.5% in the most recent school year, and are forecast to make up 7.4% of total expenses in the year ahead.

Figure 34

Operating expense % breakdown by category					
	Audited 2012-13	Audited 2013-14	Audited 2014-15	Unaudited 2015-16	Balanced Prelim 2016-17B
Enrolment	55,440	54,534	51,384	52,240	52,119
% Change in Enrolment	N/A	(1.6)%	(5.8)%	1.7%	(0.2)%
Salaries and benefits	93.0%	92.7%	92.7%	92.5%	92.6%
Services and supplies	7.0%	7.3%	7.3%	7.5%	7.4%
Total operating expenses	100.0%	100.0%	100.0%	100.0%	100.0%
Services and supplies					
Services	25.4%	25.7%	27.7%	34.6%	26.8%
Student transportation	8.1%	8.2%	7.8%	7.5%	8.4%
Rentals and leases	2.6%	2.6%	4.2%	3.8%	5.8%
Supplies	33.7%	30.5%	29.1%	27.3%	26.4%
Utilities	22.2%	25.0%	21.9%	19.0%	25.0%
Other 1	8.1%	8.0%	9.4%	7.7%	7.6%
Total services and supplies	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Audited financial statements for SY2013/14 - 2014/15; 2016/2017 budget proposal summary provided by VBE for SY2015/16 and for budget figures.

Notes:

- (1) Services and supplies included in "Other" category include insurance, professional development & travel, dues & fees, and interest.

7.3.3 Benchmarking expenses

In order to help identify cost saving opportunities, we have examined how VBE's results have compared to its Subset Districts.

The reader should be cautioned that the benchmarking detailed below is based on actual audited financial results reported for SY2014/15. At the time of writing this report, actual results for SY2015/16 for all school districts were not yet available. Year-over-year variances in this section reflect comparisons of SY2014/15 to SY2013/14. For benchmarking purposes, we assume all Subset Districts have moved in parallel from SY2013/14 to SY2014/15.

Benchmarking against a representative subset gives us the ability to assess performance of VBE against the Subset Districts and helps us understand the potential opportunities to reduce operating expenses if VBE were to achieve best-in-class performance levels (if it is not already doing so).

As salaries and benefits form the majority of operating costs, EY's discussion will focus on this cost category. Benchmarking of other cost categories is included as Appendix J.

Methodology

The Subset Districts used for benchmarking salaries and benefits (and other cost categories included in Appendix J) are the same as those used in the EY 2015 Report, and include the Subset Districts. These school districts were selected in light of similar characteristics such as size of operating expenses and geographical proximity to Vancouver. The Central Okanagan district was an exception to the latter point, with priority given to the size of its base of operating expenses.

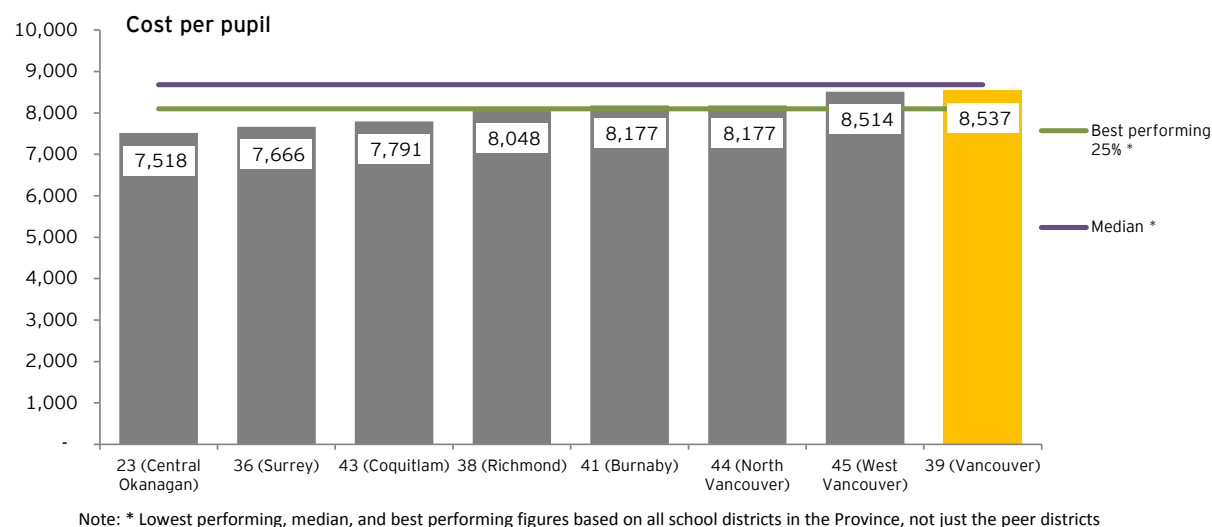
The lowest performing 25%, median and best performing 25% figures shown in the charts are based on all school districts in the Province of BC, not just the Subset Districts.

This analysis compares VBE to its Subset Districts by calculating the cost per pupil as the respective amount of the cost category divided by the FTE student enrolment. This approach has been taken to facilitate comparisons in light of the large range in size of operating expenditures across the peer districts and also because FTE student enrolment is a key driver of operating expenses.

Salaries and benefits

The following chart compares VBE's cost per pupil to other Subset Districts for salaries and benefits.

Figure 35



\$M	162.4	522.9	239.6	165.3	190.8	124.6	57.3	438.7
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Source: MEd provided financial information and data

VBE is a median performer spending \$8,537 per pupil but the highest cost school district in comparison to its Subset Districts.

7.4 VBE key operating metrics

7.4.1 Introduction

In the previous subsection of this report we have performed specific benchmarking on the VBE salaries and benefits costs against the Subset Districts.

Our finding therein is that the VBE has the highest salaries and benefits cost per pupil (i.e. \$8,537) in comparison to its Subset Districts.

The analysis below provides greater detail into the reasons behind the VBE's negative performance.

7.4.2 VBE key operating metrics

Key operating metrics for BC school districts to assess labour utilization and capacity utilization include:

- ▶ student to staff ratios; and
- ▶ square feet per student ratios.

In order to help understand potential cost savings opportunities, we have examined how VBE's results have compared to a subset of peer school districts.

It is noteworthy that this data used for VBE and the Subset Districts was sourced from the Comparative Staffing Levels Report prepared by Bob Janzen ("Janzen Report") for the Vancouver School District (initially prepared in March 2015 and updated January 2016). EY did not independently verify the accuracy of the ratios presented. Districts included in the subset were not disclosed; however, the report noted that the subset of school districts included larger districts with similar characteristics to the Vancouver district.

Student to staff ratios

The following tables present VBE's SY2015/16 student to staff ratios and square feet per student compared to these same ratios of a subset of comparable school districts.

Figure 36

VBE and Subset Districts student/staff ratios 2015/16				
Staff	# FTE Staff	VBE student/staff ratio	Subset student/staff ratio	Difference between VBE and subset
Teachers 1	2,934.67	19.89	20.58	(0.69)
Principals/Vice Principals 1	193.63	256.73	262.17	(5.44)
Support staff 1	1,244.38	39.95	58.32	(18.37)
Educational assistants 1	879.49	56.52	55.07	1.45
Special education teachers	280.40	8.47	8.30	0.17
Special education EAs	781.69	3.04	2.89	0.15

Source: Report for Vancouver School District, Comparative Staffing Levels Updated January 2016 (Bob Janzen)

¹ based on total funded FTE students for SY2015/16 of 49,710

Based on the comparison summarized above, VBE has a lower student to support staff ratio for the main staffing types servicing regular enrolment.

For the purposes of our analysis, we have excluded from the table above certain minor categories (education assistant, special education teachers, aboriginal education teachers, and ESL teachers).

Square feet per student ratios

The following tables present VBE's SY2015/16 square feet per student compared to these same ratios of the Subset Districts.

Figure 37

VBE and Subset Districts square feet per student ratios 2015/16			
	VBE Sq. Ft. per student	Subset Sq. Ft. per student	Difference between VBE and subset
Square feet per student	159.12	121.29	(37.83)

Source: Report for Vancouver School District, Comparative Staffing Levels Updated January 2016 (Bob Janzen)

The table above shows that Vancouver has a high difference in the square feet per student ratio compared to its Subset Districts, meaning that Vancouver has significantly more space per student FTE than the Subset Districts. The difference of 37.82 square feet translates into ~30% more square footage per student than the Subset school districts.

The higher square footage per student brings with it higher levels of facilities staff to operate, maintain and manage facilities (relative to the number of students). This contributed to the significantly lower student/staff ratios with respect to facilities staff. The table below summarizes VBE's SY2015/16 student to staff ratios for facility operations staff (i.e. building operations staff, building maintenance staff and ground staff) compared to the Subset Districts.

Figure 38

VBE and Subset Districts student/ facilities staff ratios 2015/16			
Facilities Staff	VBE student/staff ratio	Subset student/staff ratio	Difference between VBE and subset
Building operations staff	120.32	181.86	(61.54)
Building maintenance staff	439.53	601.30	(161.77)
Grounds staff	741.17	1,628.58	(887.41)

Source: Report for Vancouver School District, Comparative Staffing Levels Updated January 2016 (Bob Janzen)

From the table above, it would appear that the majority of variances in facilities staffing is related to the amount of space that needs to be maintained relative to the number of students and as elaborated on in more detail below as pertaining to the restrictions in the collective agreements.

Recommendation #9: VBE should benchmark its performance on a regular basis against a subset of alternative, but representative, school districts to improve operational performance and cost efficiency and achieve or adopt “best in class” performance and/or identify barriers to be addressed that prevent it from achieving such performance standard.

7.4.3 VBE labour costs comparison

As reported above, the Janzen Report on comparative staffing levels identified that in comparison to its Subset Districts, Vancouver was significantly overstaffed in many of its employee categories.

EY identified cost opportunities by comparing VBE's cost structure and operating metrics to its Subset Districts.

Based on the EY analysis, as shown in the tables below, if the VSD was able to reduce staff levels to the levels of its Subset Districts, the net annual cost savings on salaries is estimated at approximately \$24.7M. This estimated saving of \$24.7M is before taking into consideration the reduction of FTE implemented in the SY2016/17 budget proposals.

After adjusting for the staffing reduction proposals in the SY2016/17 budget, which reflect a reduction of 99 FTE employees, the savings opportunity still available to be captured is \$17.7M at the end of SY2016/17. By including the impact from the 11 proposed school closures for SY2017/18, the analysis suggests a further reduction of 81 FTE employees. This translates into \$12.8M in savings still to be captured.

Figure 39

Labour costs comparison		
	FTE Under/(Over) Subset	EY Estimated Annual Savings
Total FTE savings per the Janzen report (January)	(329)	\$24,727,504
Changes due to FTE budget proposals	99	\$7,013,817
Unrealized savings after 2016/17 budget	(231)	\$17,713,687
11 Proposed School Closures	81	\$4,944,436
Unrealized savings after proposals & closures	(150)	\$12,769,252

Source: VSB Budget 2016/17 Workshop Document dated March 29, 2016 and Janzen report updated on January 2016

It is important to note that the ability of the VSD to capture the remaining \$12.8M in labour savings is restricted because of the provisions of the collective agreements. As a result of the restrictions in the collective agreements, the VSD is not operating efficiently in comparison to its Subset Districts.

The table below shows the breakdown of cost savings opportunities by categories (i.e. Teachers, Educational Assistants, Principals/Vice Principals Facilities Support Staff and Other Support Staff).

Figure 40

Labour costs comparison by category			
	Pre-adjusted Annual Cost Savings	Post Budget Proposals Annual Cost Savings	Post-Budget Proposals and School Closures annual Cost Savings
Teachers	\$10,461,502	\$6,099,256	\$5,035,088
Educational assistants	-	-	-
Principals/vice principals	\$553,198	\$277,888	-
Facilities support staff	\$11,993,555	\$11,561,540	\$8,771,160
Other support staff and excluded	\$1,719,249	\$(224,997)	\$(1,036,997)
Total	\$24,727,504	\$17,713,687	\$12,769,252

Source: VSB Budget 2016/17 Workshop Document dated March 29, 2016 and Janzen report updated on January 2016

As shown in the table above, the majority of the potential net annual cost savings of \$24.7M relates to facilities support staff. Of this \$12.0M in savings related to facilities support staff, \$6.9M is estimated to result from excess square footage, and \$5.1M comes from provisions in the Collective Agreements as well as decisions made by the district locally.

Appendix E of this report includes a table detailing the calculations of the potential benefits if the Vancouver School District could operate at the same staffing ratio as its Subset Districts. This table also shows the ratios of facilities support staff specifically included in the "Support Staff and Excluded" category.

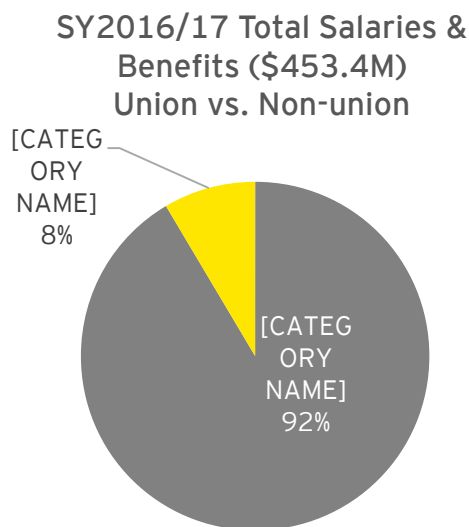
7.4.4 VSD collective agreements restrictions

Background on Collective Agreements

As noted in the earlier discussion on benchmarking of operating expenses, Vancouver has a higher cost per pupil compared to its peer group. One of the main contributing factors in this regard is the 14 collective agreements for the VBE.

With 93% of its total operating expenses comprised of salary and benefits costs, the majority of Vancouver's costs are impacted by the collective agreements. In particular, 92% of Vancouver's total salaries and benefits costs in SY2016/17 are expected to be covered under the school district's 14 collective agreements.

Figure 41



Source: VBE provided financial information and data

A key element of Vancouver's high cost profile relative to its Subset Districts relates to these collective agreements and restrictive provisions included within them.

VBE is required to invest a significant amount of time and effort in managing its collective agreements compared to other school districts on account of the greater number of collective agreements in place. That said, while there are 14 collective agreements which impact the VBE, there are six master collective agreements. One of these master collective agreements relates to the Bargaining Council of Vancouver School Board Construction and Maintenance Trade Unions, which includes nine trade unions that are a poly party that bargain collectively.

These master collective agreements (and trade unions) are:

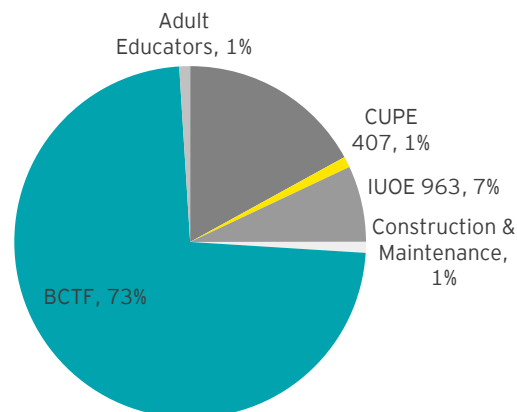
1. CUPE 15 (July 2014 - June 2019);
2. CUPE 407 (July 2014 - June 2019);
3. IUOE 963 (July 2014 - June 2019);
4. Bargaining Council of Vancouver School Board Construction and Maintenance Trade Unions (July 2014 - June 2019), representing nine separate unions:
 - a. Bricklayers
 - b. Carpenters
 - c. Cement Masons
 - d. Electrical Workers
 - e. Heat & Frost Insulators
 - f. Machinists

- g. Painters
 - h. Plumbers
 - i. Sheet Metal Workers
5. BC Teachers' Federation / Vancouver Teachers' Federation (July 2013 - June 2019); and
 6. Vancouver Teachers' Federation (VESTA Adult Educators' Sub local) (July 2013 - June 2019).

As shown in the chart below, out of the six master collective agreements, the BCTF is expected to account for 73% of unionized labour spending in SY2016/17, followed by CUPE 15 (17%) and IUOE 963 (7%). Adult Educators, CUPE 407 and Construction and Maintenance made up the remaining 3%.

Figure 42

**SY2016/17 Union Salaries & Benefits
(\$415.8M)
Breakdown by Collective Agreement**



Source: VBE provided financial information and data

Appendix F of this report provides a summary of the key aspects of each of the master collective agreements.

Restrictive Provisions in VBE Collective Agreements

With respect to restrictive provisions in VBE's collective agreements, four key provisions have been identified by the VBE that limit the ability of the VBE to implement labour cost efficiencies.

These restrictions include:

1. CUPE 15, guaranteed employment and permanent substitutes;
2. CUPE 407, minimum staffing level;
3. IUOE 963, building engineers are staffed to square footage; and
4. Technological change provisions in each of the collective agreements.

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Each of these four restrictions is elaborated on in more detail below.

1) CUPE 15 - Guaranteed employment and permanent substitutes:

The VBE is prepared to guarantee the employment of permanent employees (including probationary employees) employed prior to 1999 May 14 for the term of this Collective Agreement. These employees are specifically 382 employees, as of October 3, 2014. The pay level, status (FTE) and benefits of these 382 employees will be maintained (grand-parented) for the term of the collective agreement.

Employees with guaranteed employment displaced as a result of position reductions within a band will be appointed as permanent substitutes until a suitable position within the band is available. Permanent employees will retain their regular salary and benefits while employed as permanent substitutes. Permanent Substitutes will remain on the bi-weekly payroll and will not be required to complete timesheets.

2) CUPE 407 - Minimum staffing level

The Collective Agreement requires a minimum staffing level of 101 FTE but does not specify a quota for each area of specialty. The union is currently operating at the 101 FTE level of staffing. Employees can be transferred from one category to another provided they are qualified; the rate of pay cannot be reduced but can be increased.

3) IUOE 963 - Building engineers are staffed to square footage; excess capacity and language in collective agreement drives cost inefficiencies

Building Engineer groups (with the exception of the Building Engineer 2 position) are staffed to square footage as outlined in the collective agreement. Attempts to improve this collective agreement language to provide the employer more flexibility have been attempted in past rounds of collective bargaining. There has also been an attempt to consolidate some of the engineering positions as some of the facilities no longer require the same certification. Attempts to renegotiate this language have not been successful.

4) Technological change provisions

Each of the collective agreements has provisions around “technological change”, which refers to the introduction of new machinery or equipment, or a reorganization resulting from such machinery or equipment that is expected to affect the terms and conditions, or security of employment of employees. These provisions generally indicate that employees will not be laid off or receive a reduction in pay as a result of technological change.

It is unclear to what extent opportunities for labor savings have not been realized because of these provisions but they could potentially have contributed to Vancouver’s higher operating cost per pupil.

Recommendation #10: VBE should immediately commence a review of the 14 collective agreements (other school districts in the Province of British Columbia are typically subject to no greater than three collective agreements, and the vast majority two collective agreements) to which it is subject and that are constraining the ability of the VBE to realize necessary labour cost savings available to other school districts. In furtherance of this recommendation, we suggest that the VBE engage in a detailed consultative process with the Public Sector Employers' Council (PSEC) and the affected unions to identify opportunities for better service alignment and to consider the alternatives 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.

7.4.5 Labour saving opportunity

Apart from the foregoing restrictive provisions in VBE's collective agreements, EY has identified a labour saving opportunity related to the VBE grounds staff. Specifically, through discussion with Management of the VSD, it is understood that the VSD does not require the full 101 FTE mandated by the CUPE 407 (i.e. grounds staff) collective agreement for the entire year.

The VBE has the opportunity to develop service agreements to redeploy underutilized staff with other public sector agencies. The Province would then provide the VSD with a labour cost recovery for the staff deployed under the service agreements. The development of the service agreements would require cooperation from the unions at the service receiving organizations and may require some creativity to structure a solution that works for all parties.

VBE's Management estimates that the number of people that could be utilized is roughly 30 FTE's for half a year (15 FTE for the entire year). This corresponds to a potential annual saving of \$870,000. The table below details the calculation of the potential annual saving.

Figure 43

Estimate of annual net cost savings						
Union	Current Staff	Required Staff	Difference in Staff	Half Year Factor	Average Salary	Potential Savings
CUPE 407	101	71	30	0.5	\$58,000	\$870,000

Source: VBE provided financial information and data, EY estimates

Recommendation #11: VBE should commence discussions with the Province to potentially develop a service agreement which may better utilize 30 FTE staff from CUPE 407 for half a year (based on VBE's Management estimates). Through discussion with Management of the VBE, it is understood that they do not require the full 101 FTE mandated by the CUPE 407 (i.e. grounds staff) collective agreement for the entire year.

Long Range Facilities Plan (“LRFP”) and capital asset management

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8 Long Range Facilities Plan and capital asset management

8.1 LRFP background

In August 2014, the VBE and the MEd signed a Memorandum of Understanding, where the VBE agreed to develop a Long Range Facilities Plan (“LRFP”), which would, *inter alia*:

- ▶ serve as the guiding framework for facility planning for the next 14 years (i.e. from 2016 to 2030);
- ▶ become the platform for the VBE to achieve a targeted capacity utilization on a consistent annualized basis; and
- ▶ assist the VBE in completing the Seismic Mitigation Plan (“SMP”) by 2030, in a manner that is as fiscally reasonable as possible.

The EY 2015 Report provided further framework guidance and numerous recommendations pertaining to the deployment of capital in respect of facilities planning and budgetary savings that could be achieved through facility rationalization.

Preliminary work on the LRFP was undertaken in the SY2014/15 and the report was developed further in the fall of 2015, through consultation with staff members at the MEd.

An Interim LRFP was approved by the VBE on January 25, 2016 and submitted to the MEd on January 31, 2016. From February 2016 to June 2016, the VBE engaged in a public consultation process through:

- ▶ meetings with various stakeholder groups;
- ▶ public open houses and workshops;
- ▶ outreach / pop-up events at public libraries and at Kingsgate mall; and
- ▶ online surveys and representative surveys conducted by Ipsos Public Affairs.

In aggregate, a total of 1,646 online surveys and 400 representative surveys were completed, 225 participants attended public open houses and workshops, 175 participants were present at stakeholder meetings, and 465 participants actively engaged at the pop-up events.

The Final LRFP was submitted by the senior management staff of the VSD and approved by the VBE on May 24, 2016. Following the release of the LRFP, on June 20, 2016 the VBE released a press release, identifying a preliminary list of 12 schools marked for closure.

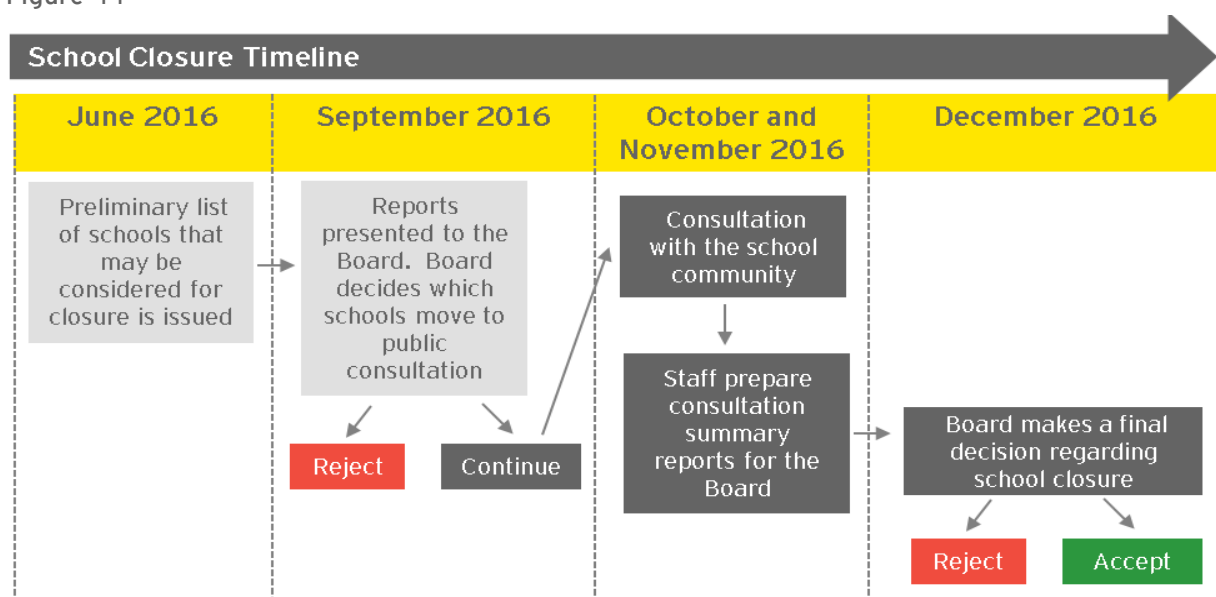
A summary report describing the 12 potential school closures was released on September 15, 2016, together with full reports on each of the proposed 12 schools. Following an information meeting of the Trustees held on September 21, 2016, Britannia Secondary School was removed from the list of potential schools subject to closure. The VBE reviewed the reports of the remaining 11 schools and voted on September 26, 2016 to proceed with public consultation for all of the 11 remaining schools

identified for potential closure. For these 11 schools, broad consultation with the school community will occur during October and November 2016.

As noted above, on September 21, 2016, Britannia Secondary was recommended to be removed from the list of school closures. The VBE voted on this recommendation on September 26 to formally remove Britannia Secondary from the list of the proposed school closures.

The Management of the VSD will prepare a further report for the consideration of the VBE after public consultation is finished, summarizing the results of the consultation process. The Trustees will then vote in December 2016 on which schools will be closed at the end of the SY2016/17. The chart below summarizes the timeline for schools closures.

Figure 44



Source: VBE Strategic Report: Potential School Closures dated September 15, 2016

On September 21, 2016, the BC government released a press release reporting a decision to remove the utilization targets for building and upgrading schools, although districts must still find ways to justify the need for new, expanded or seismically upgraded schools. The press release also indicated that the BC government will look at each school on a case-by-case basis. While the press release is specific to new, expanded and upgrading schools, its meaning may suggest permitting the operation of existing schools at less than 95% utilization, considered on a case-by-case basis. While this may seem permissive, EY considers the principle of operating schools at or near full capacity central to achieving operating cost effectiveness and directing public funds to the benefit of the students, not excess facility maintenance.

In the following sections, the report will describe in detail the current facilities situation faced by the VSD. The following paragraphs will highlight relevant macro and microeconomic drivers that impact the long range facilities planning, and the challenges in finding adequate funding to perform all of the required seismic and deferred maintenance projects.

The proposed school closures, including the process on how the VBE arrived at the preliminary list, potential cost savings and avoidance, capacity rationalization, are also described in detail. The last section of the report is with regards to the surplus lands and assets that the VBE has, for which EY has suggested potential revenue generating opportunities.

8.2 Vancouver current market conditions – Macro drivers

8.2.1 Vancouver demographics

The LRFP analyzes the demographics of Vancouver and explains that it has changed significantly in recent history.

Census Canada reports that Metro Vancouver’s population increased from 2.1M people in 2006 to 2.3M people in 2011, which represents a 9.3% change in the total population.

Figure 45

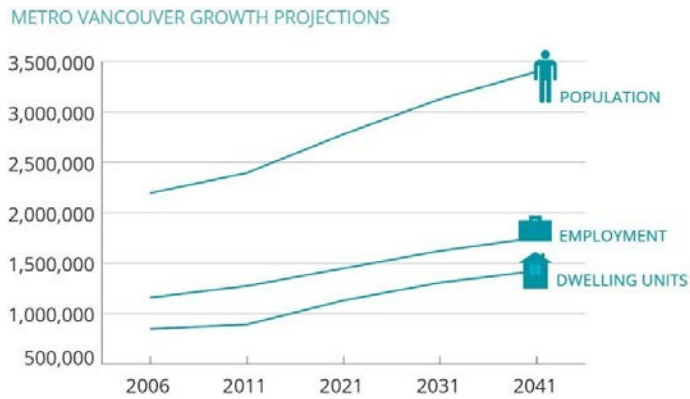
Area name	Type of Region*	2011 Population	2006 Population	% change
Surrey	CY	468,251	394,976	18.6%
Coquitlam	CY	126,456	114,565	10.4%
Burnaby	CY	223,218	202,799	10.1
Richmond	CY	190,473	174,461	9.2%
Vancouver**	CY	603,502	578,041	4.4%
North Vancouver	CY + DM	175,302	169,857	3.3%
West Vancouver	DM	42,694	42,131	1.3%
Metro Vancouver	Aggregate	2,313,325	2,116,580	9.3%

*CY = City, DM = District Municipality

Source: Statistics Canada 2006 and 2011 Census Data

The figure below shows the demographics growth projections for Metro Vancouver as per the study performed by Metro Vancouver Regional Planning named “2040: Shaping Our Future”. Metro Vancouver Regional Planning studies predict that Metro Vancouver’s population will grow to over 3.4M in the next 25 years.

Figure 46



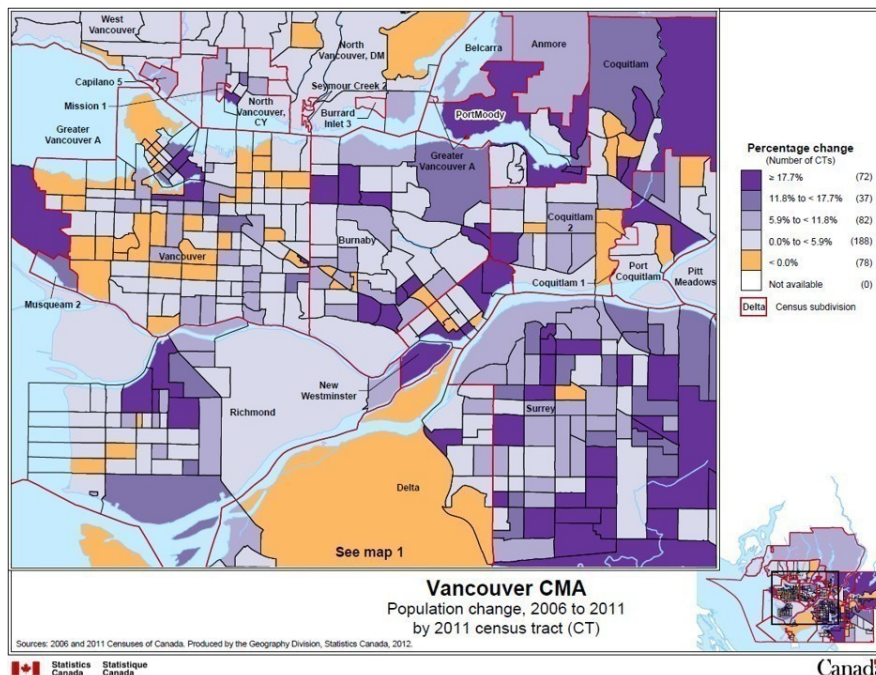
By 2040, Metro Vancouver is projected to have 3.4 million residents, 1.4 million dwelling units and 1.7 million jobs.

Source: Metro Vancouver Regional Planning Study: "2040: Shaping Our Future".

The majority of the population growth will be outside of the City of Vancouver. Surrey, Burnaby, and Coquitlam are expected to have the highest growth, while the City of Vancouver's population is expected to fall from 26% of the Metro Vancouver total, to 22.4%. This trend can be explained by the aging population and the affordability of the Metro Vancouver region.

The City of Vancouver, which is the jurisdiction of the Vancouver School District, has a population in 2011 of 603,502. The growth and decline of areas within the city are not homogenous, as demonstrated in the chart below.

Figure 47



Source: Statistics Canada 2011 Census

Aging population

The population in Metro Vancouver is aging; like the rest of the country. In Canada, school aged children born between 1993 to 2011 accounts for 21% of the population, which is significantly less than the generations of the baby boom, baby busters, and the children of baby boomers. The schools created to accommodate those generations throughout their school years are experiencing decreased occupancy demand.

Figure 48

Generations in Canada, 2011 Census per Statistics Canada			
Generation	Age	Population #	Population %
1918 and before	93 years and over	91,195	0.3
Parents of baby boomers (1919 to 1940)	71 to 92 years	3,074,045	9.2
World War II generation (1941 to 1945)	66 to 70 years	1,444,035	4.3
Baby boomers (1946 to 1965)	46 to 65 years	9,564,210	28.6
Baby busters (1966 to 1971)	40 to 45 years	2,823,840	8.4
Children of baby boomers (1972 to 1992)	19 to 39 years	9,142,005	27.3
Generation Z (1993 to 2011)	18 years and less	7,337,350	21.9
Total		33,476,680	100%

Source: Statistics Canada 2011 Census Data

As a result of the aging population, student enrolment has decreased, especially in the City of Vancouver. Vancouver's average number of children at home per census family is 1.0 compared to Metro Vancouver's average of 1.1 (Census 2011), and although the City of Vancouver's total population had increased by 4.4% from 2006 to 2011, the number of children aged 0 to 14 actually declined by 3.5%.

Figure 49

Age groups	2011 Census	Population %	2006 Census	Population %	Change #	Change %
0 to 14	71,350	11.8	73,925	12.8	-2,575	-3.5
15 to 64	450,220	74.6	428,130	74.1	22,090	5.2
65 and over	81,935	13.6	75,985	13.1	5,950	7.8
Total	603,505	100%	578,040	100%	25,455	4.4

Source: Statistics Canada 2011 and 2006 Census Data

Affordability

The LRFP also identifies that a major contributor to the decreasing population of children in the City of Vancouver is affordability. Studies by the Greater Vancouver Real Estate Board demonstrate the discrepancy between housing in Vancouver East/West and the rest of Metro Vancouver.

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Figure 50

	Vancouver East			Vancouver West			Metro Vancouver		
As at July	2016	2006	%	2016	2006	%	2016	2006	%
All Types	\$986,300	\$445,200	122	\$1,256,500	\$606,400	107	\$930,400	\$482,300	93
Detached Home	\$1,528,200	\$574,100	166	\$3,591,200	\$1,238,000	190	\$1,578,300	\$674,400	134
Townhouse	\$769,800	\$398,900	93	\$1,088,400	\$538,900	102	\$669,000	\$384,000	74
Apartment	\$435,500	\$246,000	77	\$698,000	\$397,900	75	\$510,600	\$320,600	59

Source: Greater Vancouver Real Estate Board

The table below compares the current median household incomes for Metro Vancouver with the housing prices in the Vancouver East and West districts, highlighting that housing prices for Metro Vancouver are not affordable. Housing prices have greatly outpaced median household income.

Figure 51

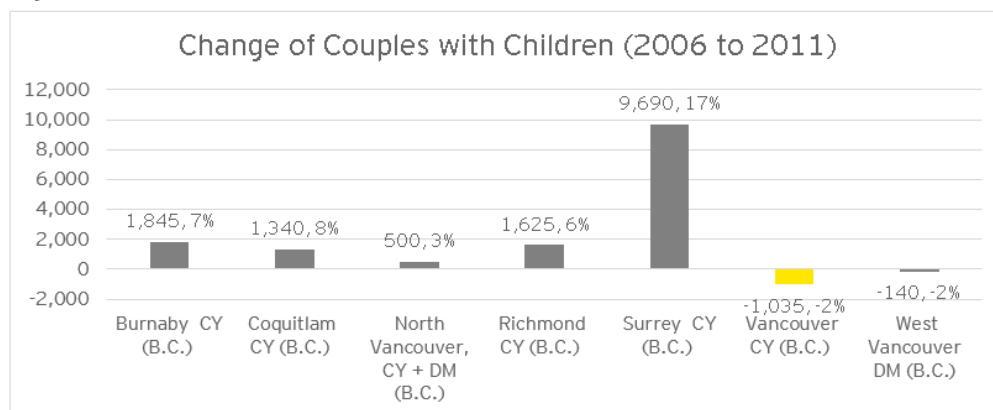
Years	2006	2014	Inflation ¹	2016	%
Median Household Income	\$55,231	\$76,040	1.49%	\$78,400	42%
Metro Vancouver Housing Price (all types)	\$482,300	N/A	N/A	\$930,400	93%
Vancouver East	\$445,200	N/A	N/A	\$986,300	122%
Vancouver West	\$606,400	N/A	N/A	\$1,256,500	107%

¹The 2016 median household income from Statistics Canada Census is not available. As a result, EY has taken 2014 median household income and forecasted a 2016 median household income using average CPI inflation for the two years 2014/15.

Source: Greater Vancouver Real Estate Board and Statistics Canada

As a result, some families are leaving Metro Vancouver, and the families that do decide to stay are being pushed further and further away from Vancouver, and into the suburbs. Census data shows that Vancouver and West Vancouver have a declining base of couples with children (married and common law), and Surrey is by far the district achieving the most substantial gains in young families.

Figure 52

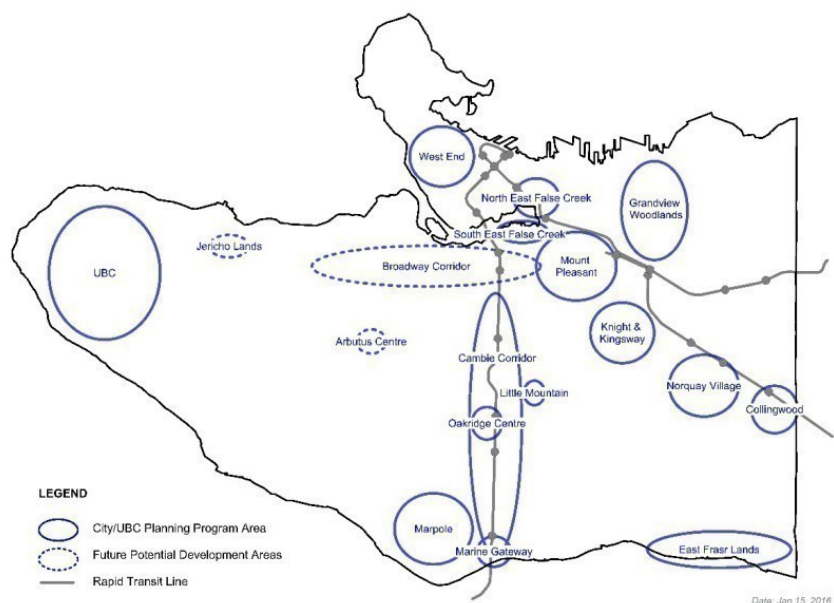


Source: Statistics Canada 2006 and 2011 Census Data

The families that are staying in the city of Vancouver are expected to live near higher density areas with good public transportation. As a result, additional schools are required in these areas of new development (as reported in the chart below).

Figure 53

UBC/City Planning Program Areas and Future Potential Development Areas

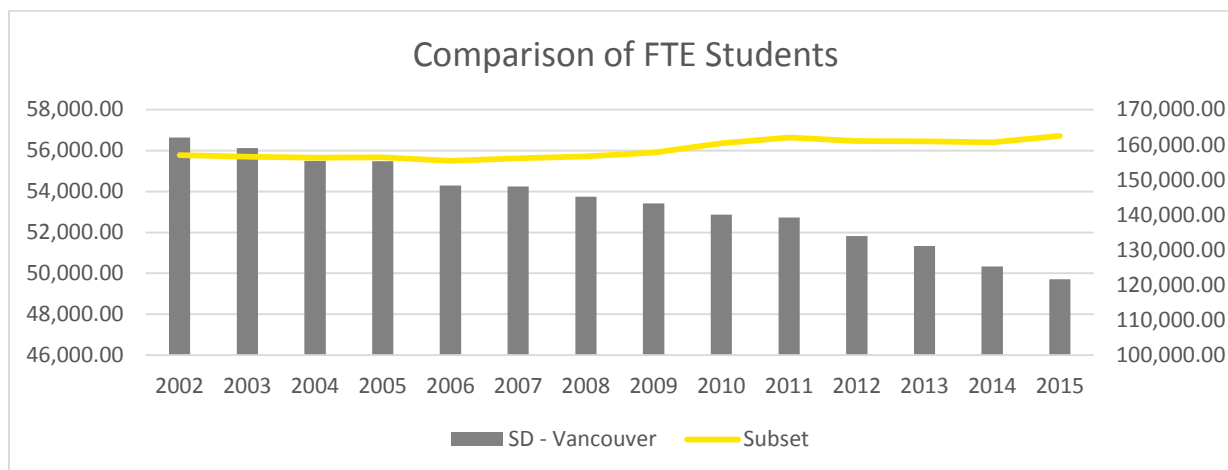


Source: City of Vancouver Neighbourhood Planning Projects

8.2.2 Enrolment history and projections

The actual enrolment for Vancouver (K-12) schools as at September, 2015 is 49,261 students (excluding international students), which is a decline of 12% since 2002 or 6,900 students. Conversely, in the same time frame, Vancouver's subset district's enrolment has increased by 5,500 or 3.5%. Vancouver's subset districts ("Subset Districts") include comparable neighbours such as Burnaby, Coquitlam, Delta, Richmond and Surrey. These Subset Districts are defined by Baragar (defined below) and are not the same Subset Districts EY references in the section of this report related to operational benchmarking.

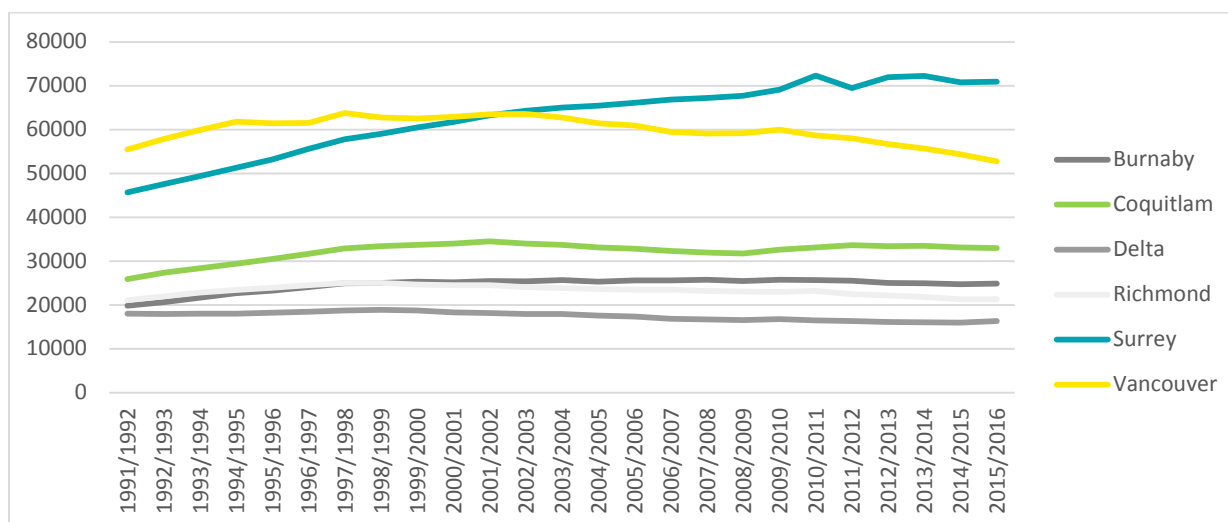
Figure 54



Source: Baragar Systems enrolment data and Ministry of Education enrolment data

Within the Subset Districts, Surrey is by far the largest and fastest growing school district, which is in line with the trend of where the young couples (and families) are moving. Vancouver's enrolment is declining, whereas the rest of the Subset Districts remain relatively flat, excluding Surrey.

Figure 55



Source: Ministry of Education enrolment data

VSD enrolment projections for the LRFP are based on Baragar Systems ("Baragar"). Baragar is a BC based firm that specializes in providing enrolment projections for BC school districts. Baragar uses multiple data sources to develop population estimates and enrolment projections. The Baragar method considers various aspects of the population such as migration, birthrates, family statistics, which has proven to be more accurate than other enrolment projections that the MEd relies upon (such as StatsCan census data). The StatsCan census data model is currently using 2011 census data, and the

model is applied to the entire population of BC instead of taking into account specific demographic and regional factors for the City of Vancouver, which Baragar does.

In the past, Baragar projections have proven to be a reliable source for enrolment projections for the VBE. As indicated in the table below, over the past four years, Baragar's enrolment projections have been within approximately 100 students of the actual count, whereas BC Stats projections exceeded actual student counts by approximately 1,600 to 4,000 students.

Figure 56

Year	BC Stats 2011 Enrolment Projections	Baragar Enrolment Projections	VSB Actual K-12 Enrolment (*)	BC Stats 2011 vs Actual	Baragar vs Actual
Sep 2012	52,508	50,983	50,882	1,626	101
Sep 2013	52,696	50,353	50,433	2,263	(80)
Sep 2014	53,115	49,673	49,791	3,324	(118)
Sep 2015	53,446	49,126	49,261	4,185	(135)

(*) Enrolment excludes international students

Source: VBE 2016 LRFP, BC Stats 2011 Enrolment Projections, Baragar Systems Data

Therefore, the MEd and the VSB have agreed that the Baragar projections should be utilized for the purposes of determining enrolment projections.

Based on the current trends, Baragar Systems projections indicate that K-12 enrolment in the VSD will increase slightly, by 550 students by 2030. As of September 2015, VSD reports that enrolment is 50,387 students, including international students, which, conversely, are not included in the table above. Adding Baragar's 550 student enrolment growth projection, enrolment is expected to be 50,937 by 2030.

Figure 57

Reconciliation of enrolment as of September 2015	Sep 2015
VSB Actual K-12 Enrolment, excluding international students	49,261
(+) International students	1,126
(=) Total VSB Actual K-12 Enrolment as of September 2015	50,387

Source: VBE Internal Documents and Ministry of Education Enrolment Data

For the purposes of this report, the enrolment numbers reported in the paragraphs below include international students.

8.3 Vancouver current market conditions - Micro drivers

8.3.1 Current capacity utilization

VBE has 110 operating schools and 50,387 K-12 students, with an operating capacity of 59,482 students as at September 15, 2016.

Figure 58

	Number of Schools	Enrolment	Operating Capacity	Utilization
Annexes (Elementary)	15	1,435	1,875	76.5%
Elementary (Main Schools)	77	27,701	32,485	85.3%
Secondary Schools	18	21,251	25,225	84.2%
Maquinna Annex*	-	-	(103)	0.0%
Total	110	50,387	59,482	84.7%

*Operating capacity as at September 15, 2016 has decreased by 103 student seats as Maquinna Annex has no student enrolment for SY2016/17 and has been closed as a result.

Source: VBE Internal Documents and Ministry of Education Enrolment Data

The operating capacity of the schools is determined by the formula established by the MEd and applied to all BC school districts.

Figure 59

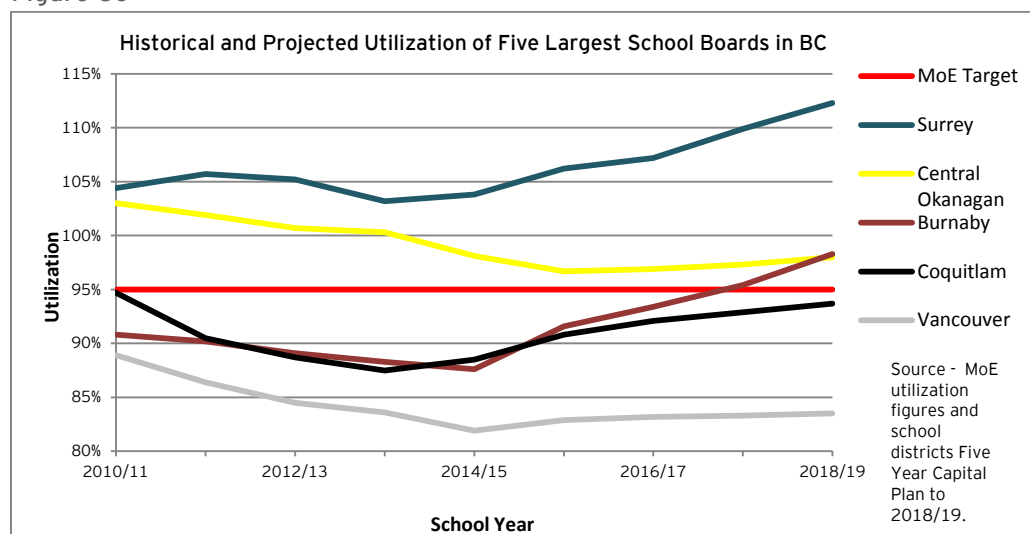
	Operating Capacity	Maximum Class Size
Kindergarten classroom	19 students	22 students
Grade 1 to 3 classroom	Average of 23.29 students*	24 students
Grade 4 to 7 classroom		30 students
Grade 8 to 12 classroom	25 students	30 students

*For a K-3 Annex, the ratio is 21 students per classroom

Source: VBE LRFP and VBE Strategic Report: Potential School Closures dated September 15, 2016

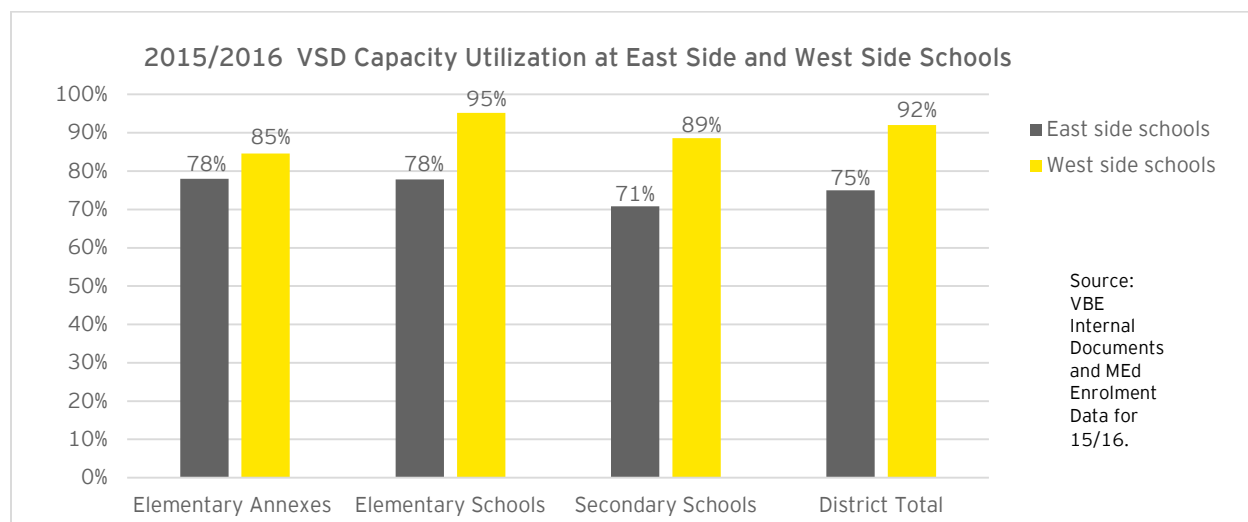
The MEd had previously established a target overall capacity utilization and most large school districts in BC are meeting or exceeding this target (as reported in the chart below). As noted above, based on a press release issued on September 21, 2016, the MEd eliminated this benchmark target and will instead assess utilization, including in respect of the need for new school and SMP funding, on a case-by-case basis.

Figure 60



Conversely to its Subset Districts, the VSD has an overall capacity utilization lower than 95%. While the schools are spread evenly across the VSD, the West-side schools generally experience higher utilization than the East-side schools. The below table summarizes the utilization discrepancy between the West and the East-side schools of the VSD in SY2015/16.

Figure 61



There are significantly more elementary schools and annexes with less than 80% utilization in the East-side compared to the West-side. There are also significantly more elementary schools and annexes with more than 100% utilization in the West-side (16) compared to the East-side (5).

In accordance with the *School Act*, families are allowed to attend a school outside their catchment area provided that space is available. The VSD has tracked the information for the average cross boundary figures for the period from 2010 to 2014, and states their findings in the Strategic Report: Potential

School Closures dated September 15, 2016. Over the period from 2010 to 2014, there was an average net transfer of 344 elementary students living on the East side but registering in the West side (1% of elementary enrolment), and 652 secondary students living on the East side but registering in the West side (3% of secondary enrolment). The data suggests that cross boundary registration is not a significant factor affecting utilization.

8.3.2 Seismic Mitigation Program (“SMP”)

The SMP was established by the Province of BC with the purpose of making schools safer in the event of an earthquake by minimizing the probability of structural collapse. The SMP was started in 2005 and is still underway. The LRFP aims to complete the SMP by 2030.

As of April 2016, in the Province of BC, 342 schools are included under the SMP, with 153 schools completed, 14 under construction, 10 proceeding to construction, 37 in the preliminary study stage, and 128 have not started.

Figure 62

Summary of VBE's SMP progress compared to subset districts						
Entity	Total SMP required	Completed	To be completed			
			Total	Construction commenced	Funded	Not yet funded
Province	342	153	189	14	47	128
Vancouver	89	20	69	5	27	37
Vancouver % of BC total	26%	13%	35%	36%	57%	29%
Surrey	28	21	9	–	2	7
Central Okanagan	–	–	–	–	–	–
Coquitlam	32	18	14	2	4	8
Burnaby	23	8	15	–	4	15

Source: MEd Seismic Mitigation Program Progress Report April 2016

All BC Schools are classified in terms of their individual seismic risk.

- ▶ High 1 (H1) - Most vulnerable structure; at highest risk of widespread damage or structural failure; not reparable after event. Structural and non-structural seismic upgrades required.
- ▶ High 2 (H2) - Vulnerable structure; at high risk of widespread damage or structural failure; likely not reparable after event. Structural and non-structural seismic upgrades required.
- ▶ High 3 (H3) - Isolated failure to building elements such as walls are expected; building likely not reparable after event. Structural and non-structural seismic upgrades required.
- ▶ Medium (M) - Isolated damage to building elements is expected; non-structural elements (bookshelves, lighting) are at risk of failure. Non-structural upgrades required. Building to be upgraded or replaced within the Capital Plan when it reaches the end of its useful life.

- Low (L) - Least vulnerable structure. Would experience isolated damage and would probably be reparable after an event. Non-structural upgrades may be required.

The VBE has been especially slow in comparison to the other districts in progressing through the required studies and upgrades. Specifically, as of April 2016, 89 schools are included under the SMP, with only 20 schools completed and 69 schools that still require upgrading through the SMP. Out of these 69 schools, 5 are currently under construction, 3 are in design development, 24 are approved for feasibility study, and 37 have not received approval to begin a feasibility study. Vancouver has a large proportion, relative to the other districts, of high risk (H1, H2, and H3) schools. As reported in the chart below, all of the 69 VBE schools with pending seismic upgrades are classified as high risk.

Figure 63

Breakdown of Vancouver Schools with pending seismic upgrades						
Progress Status	Seismic Risk					
	H1	H2	H3	Medium	Low	Total
Construction Commenced	5	–	–	–	–	5
Funded	27	–	–	–	–	27
Not Yet Funded	18	3	16	–	–	37
Total	50	3	16	–	–	69
Estimated Costs*	\$605.6M	\$14.3M	\$51.4M	\$ –	\$ –	\$671.3M

Source: MEd Seismic Mitigation Program Progress Report, April 2016

* Estimate is based on 2007 estimate of SMP upgrade construction costs, unless replacement is the more cost effective option. Replacement is based on 2015 VFA assessment of replacement value

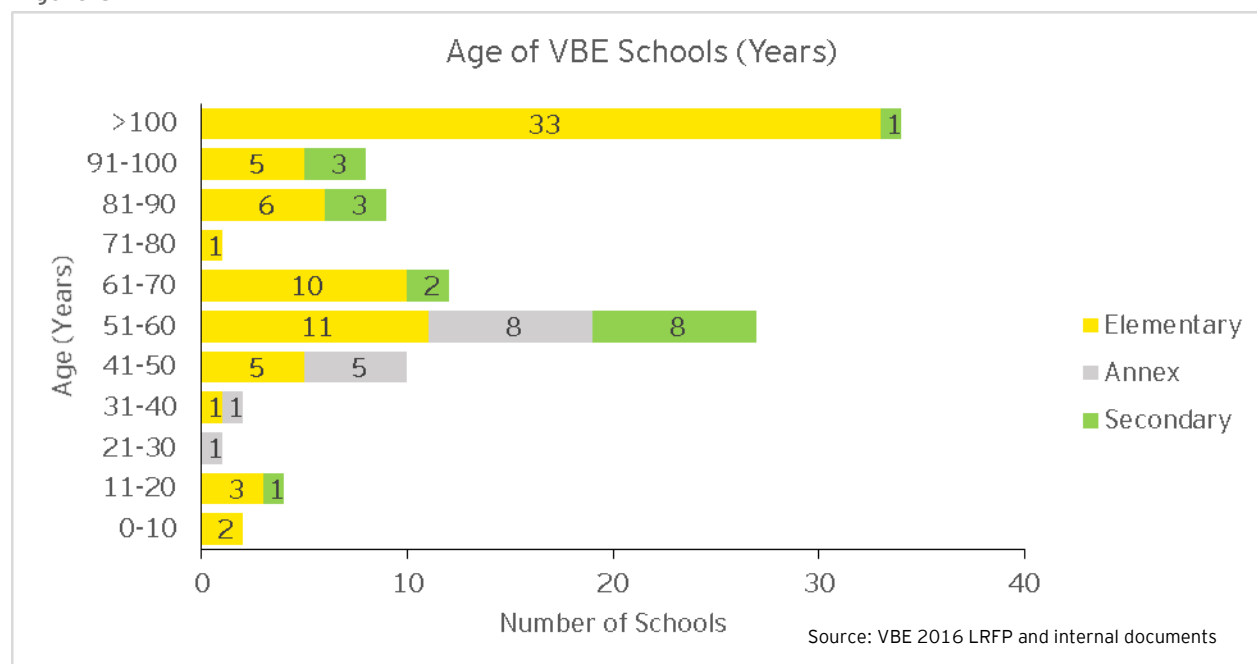
While EY was not provided with a cost estimate to complete the SMP, as seismic mitigation costing is done through individual feasibility studies as schools are approved for funding, EY has attempted to quantify the potential costs to complete the SMP for all the 69 schools, utilizing the same approach used in the EY 2015 Report. EY was provided with cost estimates from a 2007 study commissioned by the VBE, as well as replacement values of the building estimated in a study commissioned in 2015 performed by the VFA Canada Corporation (“VFA”). To estimate the total cost, EY either selected the 2007 SMP cost, or the 2015 replacement cost, whichever was lower. This estimate does not account for inflation in the cost of development and construction since the 2007 estimate; as such the actual cost may exceed the EY estimate and such variance may be material. It also does not take into account the opportunity cost of staffing resources at VBE that could otherwise be deployed in addressing the VSD’s other facilities challenges.

Based on this high level estimate, the total costs to complete the SMP in all the 69 schools that still require upgrading would amount to approximately \$671.3M.

8.3.4 Facilities conditions and deferred maintenance

As of September 2016, the average of the VSD's school buildings is approximately 74 years, with 51 schools that are more than 80 years old. Elementary annexes are generally newer and were built primarily during the baby boom of the 1950s and 1960s, resulting in an average age of 48 years. The secondary schools have average age of 68 years and the elementary schools have average age of 77 years.

Figure 64

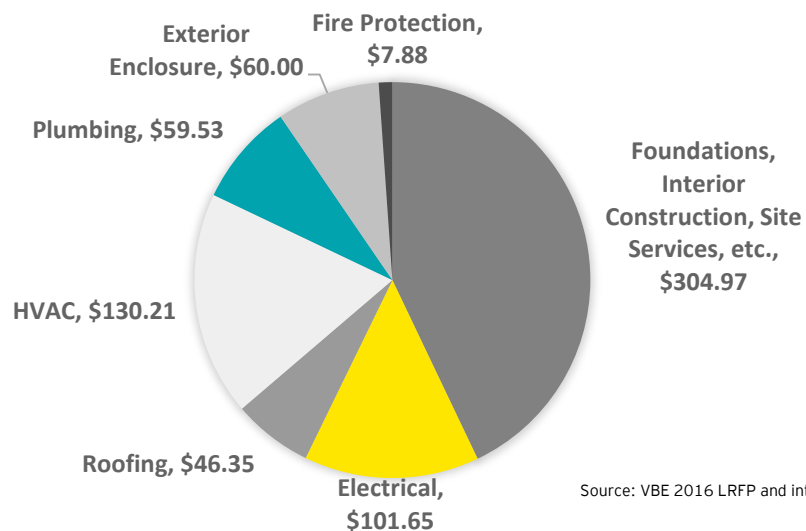


Older schools have higher maintenance costs, and Vancouver schools are amongst the oldest in the province. Historically, the VBE does not have a clear maintenance plan to address its maintenance priorities in the most efficient and cost effective manner, and as building maintenance costs are not fully funded by the MEd, the costs have to be partially funded through the operating budget. The VBE budget cannot accommodate this, particularly with funding in the SY 2016/17, and as a result, a large portion of annual deferred maintenance flows to the deferred account, which has steadily been increasing year after year.

The total estimated cost of the deferred maintenance for VBE schools as at September 2016 was approximately \$708M, as reported in the chart below.

Figure 65

VBE DEFERRED MAINTENANCE BREAKDOWN (\$708 M)



Source: VBE 2016 LRFP and internal documents

Deferring this maintenance results in risk that major building components (such as roofs, fire alarm systems, heating systems, flooring, interior finishes, plumbing, lighting, and exterior windows) will fail and could have to be replaced instead of repaired.

Deferred Maintenance costs for Vancouver schools are significantly greater than other larger school districts in the province. The Facility Condition Index (FCI), as reported in the table below, is an industry-standard index, which essentially measures the cost of the maintenance repairs divided by its replacements value.

Figure 66

District	Deferred Maintenance *	FCI*
Vancouver	\$708.4M	0.48
Surrey	\$432.8M	0.31
Central Okanagan	\$142.7M	0.31
Coquitlam	\$322.9M	0.50
Burnaby	\$205.2M	0.32
Average (all school districts)	N/A	0.40

*Study was performed by VFA Canada Corp. in 2013, contracted by the Ministry to evaluate the condition of all schools in BC.

Source: 2013 VFA Review and VBE 2016 LRFP

An FCI of 0.48 for VBE essentially means the cost of performing maintenance is 48% of the cost to build a new school to replace it. The FCI of 0.48 is high compared to the average of 0.40 of all school districts.

The MEd currently provides funding of \$10M per year to the VBE for facility maintenance through the Annual Facilities Grant ("AFG"), which is separate from the operating budget, to assist in addressing some of the capital costs and deferred maintenance issues of the schools. The VBE further allocates approximately \$6.8M of its operating budget annually to help reduce deferred maintenance. This

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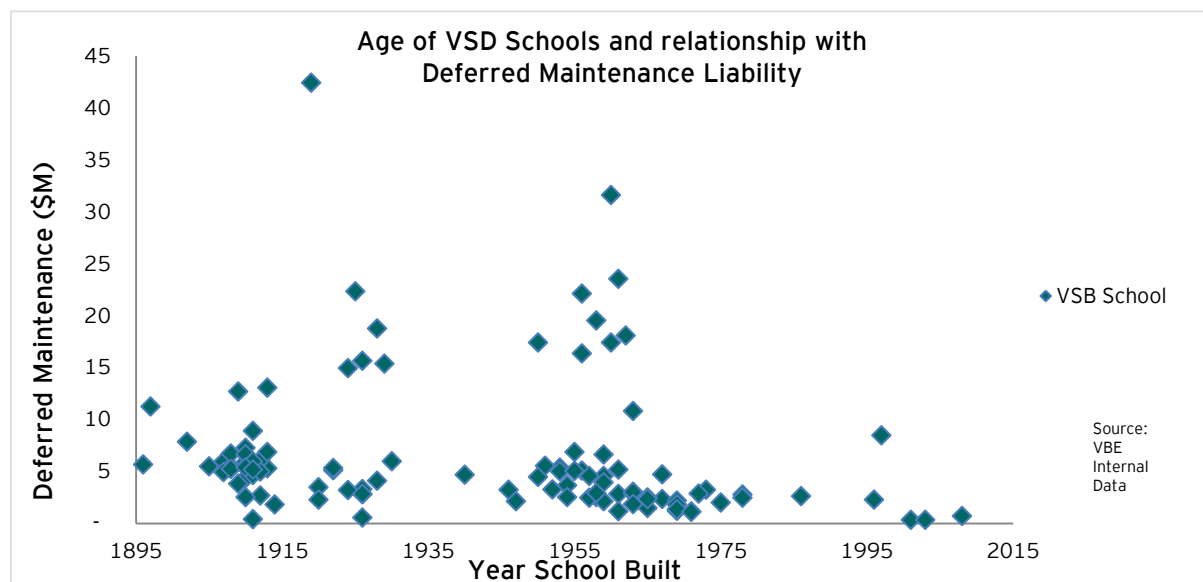
equates to approximately 0.5% of replacement value for all assets. This allocation is significantly below the Building Owners and Managers Association (BOMA) recommended industry standard of 2% annual allocation towards deferred maintenance.

- ▶ The MEd can also provide additional capital funding for approved capital projects. However, approval of additional capital funding is determined on a project by project basis, and has to be justified. There is no specific target utilization percentage, but the district has to develop a business case through projected enrolment, or demonstrate that they are operating at or near capacity. If a new school building is required and approved, 50% of the funding is from the MEd, and 50% is from the school district. For capital projects subject to the SMP, 100% of approved costs are funded by the MEd.
- ▶ As it stands, funding is inadequate to sustain the level of capital projects required to maintain the VBE's school facilities. Year after year, deferred maintenance costs are increasing, the seismic mitigation plan is behind schedule, and new projects that are required to accommodate certain areas of growth in the City of Vancouver cannot be started.

Based on the VBE's estimation included in the LRFP, if the level of AFG funding is not increased, the overall FCI of Vancouver is projected to be 0.99 by 2030 or approximately \$1.4B in deferred maintenance. In order to maintain the current FCI level of 0.48, annual funding of \$40M would be required. In order to reduce the FCI to the average of 0.40, \$48M in annual funding would be required.

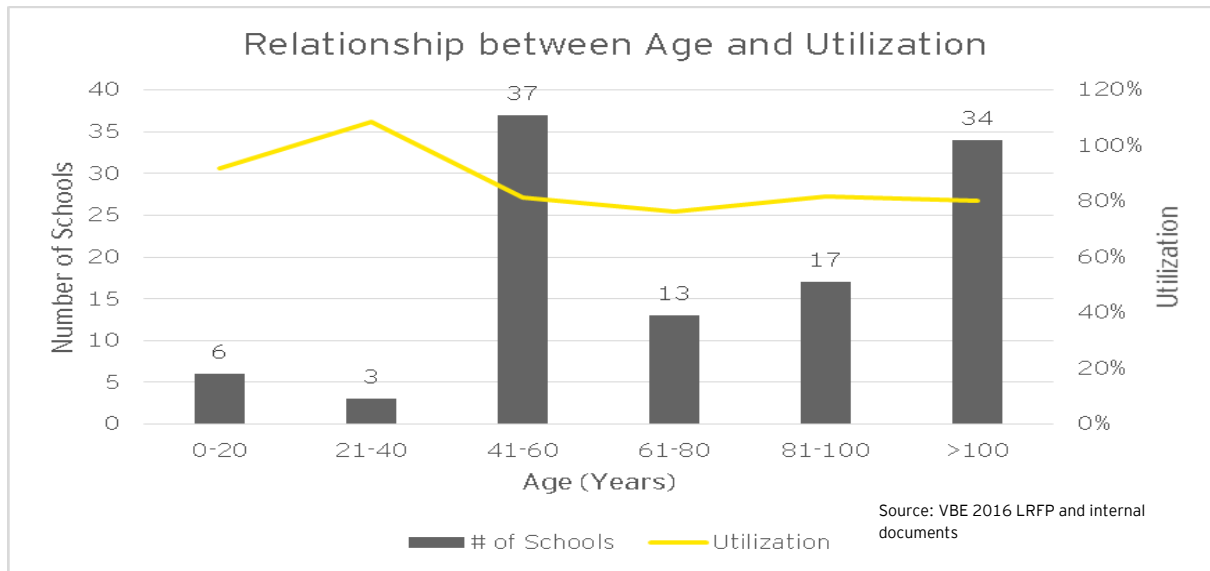
Using VFA Canada Corporation's deferred maintenance data as commissioned in 2015, EY undertook an analysis of the relationship between the ages of the schools and estimated deferred maintenance. The findings support VBE's assertion that the older schools generally have higher deferred maintenance costs. The chart below shows the relationship between age of the school and VFA Canada Corporation's assessment of current deferred maintenance:

Figure 67



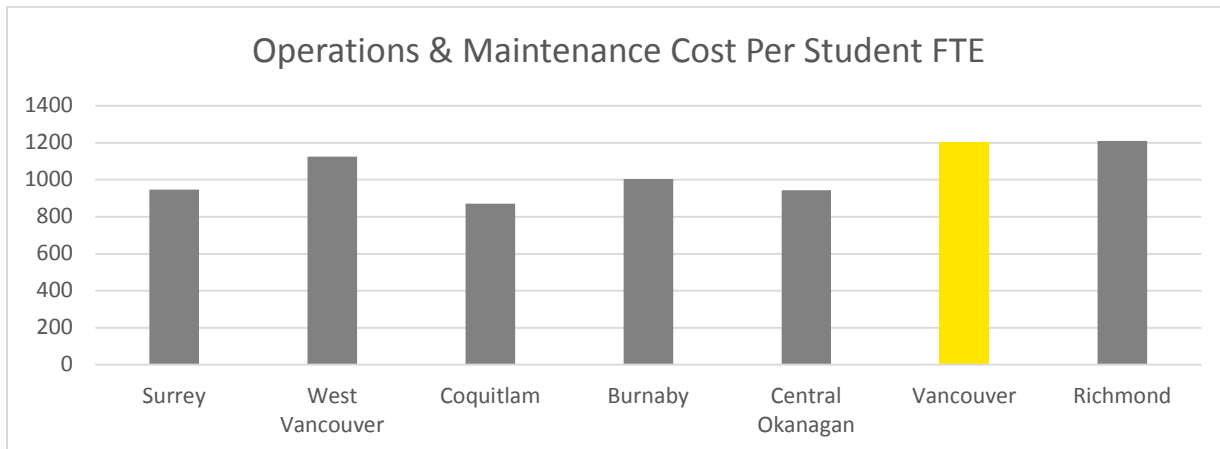
Furthermore, older schools generally have a higher percentage of underutilized space (as highlighted by the yellow line below) due to the inefficient layouts of the buildings.

Figure 68



In addition, the age of the schools results in inefficiencies, which translates into higher building operations and maintenance costs per student FTE as demonstrated in the chart below.

Figure 69



Source: Ministry of Education - School District 2015/2016 Amended Annual Budgeted Operating Expenditures by Category
<http://www2.gov.bc.ca/assets/gov/education/administration/resource-management/school-district-financial-reporting/revenue/1516-table12.pdf>

8.3.5 Heritage retention and related costs

VBE has 35 schools on the heritage registry, with 18 schools on the heritage registry that have yet to be seismically upgraded.

There are costs to retain the heritage of a building, which can be significant as it is often more cost effective to replace large sections of a building with completely new components. The estimated costs of retaining all the heritage schools on the registry are estimated by the VBE to be in the range of \$40 to \$50M.

The MEd does not provide any specific funding grants for heritage retention, and given the current buildup of deferred maintenance, and the slow progress on the SMP, retaining all the heritage buildings is not possible for the VBE.

The VBE's current strategy is to retain important components of a heritage building, if retention of the whole is not financially viable. To assist with this, various community societies interested in the preservation of heritage have been engaged to guide the strategy of heritage retention. These community societies have formed a committee that will focus on the application of heritage building identification criteria, character defining elements, and potential protection / conservation strategies and designations.

Recommendation #12: VBE should engage with the MEd to maximize the utility of invested capital associated with the SMP to sustain the economic life of the school facilities. This engagement would include coordination of deferred maintenance undertakings and/or alternative means of achieving an acceptable economic outcome when considering the cost of the SMP and deferred maintenance associated with an individual school facility relative to the schools replacement cost. Please refer to the School Closure Supplemental Report for further discussion.

8.4 Capacity utilization strategy

Capacity utilization is a function of enrolment divided by operating capacity. The MEd has stated that school districts need to justify their applications to obtain funding to build new schools and expand existing ones. Although there is no specific target utilization percentage, school districts have to demonstrate that they are operating near or at full capacity or that there are other business case drivers that support the business case for building new schools, or to expand existing schools. The VBE has identified the following factors that impact capacity utilization:

- ▶ Enrolment;
- ▶ Utilizing excess school space;
- ▶ Right-sizing;
- ▶ Adding new schools in areas of significant enrolment growth; and
- ▶ Consolidating schools.

The table below summarizes the key factors identified by the VBE in achieving high capacity utilization.

Figure 70

Summary of Projected Changes in Capacity Utilization to 2030/31				
	Enrolment	Operating Capacity	Capacity Utilization	Note
Enrolment in SY2015/16 (Current)	50,387	59,482	84.70%	
Henderson & Laurier Annex Potential Closure	-	(206)		A
11 Proposed School Closures	-	(4,330)		B
Capacity Utilization after 11 School Closures	50,387	54,946	91.70%	
Enrolment Growth	550	-		C
Right-sizing	-	(1,000)		D
New Schools	-	3,070		E
Capacity Utilization before Additional Closures	50,937	57,016	89.30%	
Additional Closures Targeted in 2025		(3,439)		F
Capacity Utilization Projected (2030)	50,937	53,577	95.00%	

Source: VBE 2016 LRFP and Internal Documents, Strategic Report: Potential School Closures

The following notes explain each of the factors impacting the VBE's capacity utilization:

1) Henderson & Laurier Annex potential closure

Henderson & Laurier Annex will be closed prior to or within the SY2017/18 as there is no expected enrolment in these schools in the near future. The official vote will be on October 17th, 2016. As a result, the capacity of the two annexes will be taken out of the operating capacity calculation, increasing overall utilization.

Maquinna Annex was closed in the beginning of 2016 and; therefore, the current enrolment of 59,482 students in SY2015/16 reflects this closure.

2) Proposed school closures

On June 20, 2016, the VSB released a press release, identifying the preliminary list of 12 schools, including 10 elementary schools and 2 secondary schools. 1 secondary school was removed from the list of school closures subsequent to the release of the preliminary list. The list below is a summary of the 11 proposed school closures, leading to a reduction of 4,330 student spaces.

Figure 71

Schools proposed for closure	Required for temporary accommodation?	Current Enrolment utilization	# of students seats
Graham Bruce Community Elementary	No	62.9%	317
Sir Guy Carleton Community Elementary	Yes	46.7%	612
Champlain Heights Annex	No	89.2%	103
Gladstone Secondary	Yes	66.3%	1,600
Dr A R Lord Elementary	Yes	40.0%	341
Sir Richard McBride Annex	No	56.6%	124
Queen Alexandra Elementary	Yes	66.6%	271
Queen Elizabeth Annex	No	72.5%	103
Admiral Seymour Elementary	Yes	26.2%	392
Tecumseh Annex	No	90.8%	103
Pierre Elliott Trudeau Elementary	Yes	66.4%	364
Total Proposed For Closure			4,330

Source: VBE Internal Documents and VBE 2016 LRFP

Part of the school closure proposal is to utilize the vacant schools as swing space or temporary accommodation while other schools undergo seismic mitigation upgrades. Of the 11 proposed school closures, six schools have been identified as suitable for use as temporary accommodation to host schools starting from SY2017/18 undergoing seismic upgrades (a portion of Queen Elizabeth Annex is already being used as a host to another elementary - General Gordon Elementary - undergoing seismic upgrades).

The proposed school closures are explained in the detail in the following paragraphs.

8.4.1 Enrolment growth

As explained previously, enrolment in the VSD is projected by Baragar to increase marginally by 550 students over the next 15 years (to 2030). Baragar projections have proven to be the most reliable source for enrolment projections and the MEd has agreed that these projections should be the source of all future enrolment forecasts for the purposes of the LRFP.

8.4.2 Right sizing

As part of the SMP, the opportunity exists to modify the size and capacity of certain schools to better match the projected enrolment. In most cases, this will result in a reduction of school capacity and therefore an increase in the utilization rate. This is most feasible where a replacement school is the preferred seismic mitigation option. However, some right-sizing may also be possible for partial replacements or, merely, by permanently locking off certain underutilized areas of the school facility.

Until the ongoing SMP projects are completed, it is not possible for the VBE to project the net impact on capacity due to future right-sizing. However, a preliminary estimate by the VBE is that up to 1,000 student spaces would be reduced due to right-sizing over the course of the SMP.

8.4.3 New schools

It is anticipated that certain catchment areas of the district will experience significant population growth over the next 15 years. To accommodate this growth and the possible increased enrolment, the district may require new schools to be built in these areas.

At present, the VBE has received approval to build one new school, which will be located at International Village in the downtown area. This school will add 510 additional student seats to district capacity when completed in 2017.

In addition to the International Village, up to an additional four new schools or school additions are required over the next 15 years. In total up to 3,070 seats may be required over the next 15 years. The additional new schools are expected as per the list below:

Figure 72

New Schools	# of students seats
International Village	510
King George	1,200
Coal Harbour	340
Olympic Village	510
East Fraserlands	510
Total New Schools	3,070

Source: VBE Internal Documents and VBE 2016 LRFP

8.4.4 F. Additional school closures

The combination of the all of the factors listed above leaves the VBE at 89.3% utilization. The VBE has also planned for additional school closures targeted for SY2025/2026, of 3,439 seats to achieve a higher utilization.

Recommendation 13: VBE should commit to a systemic asset rationalization approach aimed at capacity rationalization to a target utilization, with an annual review. It is noted that the proposed LRFP rationalization would increase the effective utilization of the VBE to 91.7% immediately thereafter. It is further noted that utilization within the VBE will, likely, continue to erode between today and 2030, arising from the addition of a planned 3,070 seats over the next 15 years and a flat or near flat enrolment projection throughout the forecast period. Absent other alterations to supply and demand, the proposed closures of the 11 schools will cause utilization to improve to approximately 89.3%, therefore a second round of school closures will be required, which is provided for in the LRFP (approximately 3,439 seats to be closed by 2025). Please refer to the School Closure Supplemental Report for further discussion.

8.4.5 Proposed school closures

8.4.5.1 School closure process

The school closures process begins with VSD senior staff preparing a report for the Trustees identifying preliminary schools to be closed. To create the preliminary list, numerous factors are considered; these factors have been divided by the VBE into two levels. The VBE starts with applying Level 1 factors to the full list of 110 schools. Only schools that meet the criteria for Level 1 will be considered for Level 2.

Level 1 factors considered (applied to all schools)

- ▶ If the school was closed, can students in that catchment be accommodated in another local catchment school;
- ▶ Out-of-catchment students enrolled in school, can they be accommodated in their home school or in local catchment school; and
- ▶ Projected future student enrolment of the adjusted catchment area(s), as the result of a closure can be accommodated.

Level 2 factors considered (applied to schools that meet Level 1 criteria)

- ▶ Geographic considerations (catchment size analysis, walk distances and routes, location of the school within the community in relation to other schools);
- ▶ Seismic risk of the building;
- ▶ School Site considerations including proximity to major roadways, play space, ability to use the building for temporary accommodation, ability to use the space for alternative functions;
- ▶ High deferred maintenance costs and high facility operating costs;
- ▶ Services and supports in place for vulnerable students, families, and communities; and
- ▶ Education and social impacts of school closure on students and families, particularly in communities with high concentrations of vulnerable students and families.

Level 1 factors are objective and in line with *VBE Policy FL-R: School Closures* which states that a school may be considered for closure when an assessment identifies that the students can be reasonably accommodated in other local schools, and the students can be provided with access to appropriate educational programs. Conversely, Level 2 factors are more subjective and there is no hard rule on which of the qualitative factors listed above is more important than the other.

Based on the Level 1 and Level 2 factors, the VBE has gone through numerous extensive studies to put forth the list of schools that are considered for possible closure.

The figure below demonstrates the total number of annexes, elementary schools, and secondary schools, and how these schools were filtered using Level 1 and Level 2 filters to arrive at the 11 proposed closures.

Figure 73

	Beginning	Level 1	Level 2
Total - begin filter	-	110	20
Elementary Annex	15	5	4
Elementary Schools	77	11	6
Secondary Schools	18	4	1
Total - end filter	110	20	11

Source: VBE Strategic Report: Potential School Closures dated September 15, 2016

It is important to note that there were a total of nine schools that passed Level 1 filters but not Level 2 filters. However, this does not necessarily mean that these nine schools would be the schools considered for closure if another round of closures were proposed; this is because enrolment will change as a result of the reallocation of students from the proposed list of 11 schools for closure.

The Level 1 filter currently being applied by the VBE is also more stringent than the *VBE Policy FL-R: School Closures* mandates. Specifically, the VBE is currently ensuring that a school proposed for closure will be able to accommodate all of their students in just one or two neighbouring schools, to minimize the impact of splitting up classmates and family members. The current board policy only states that students have to be reasonably accommodated in local schools, and does not state that the classroom groups have to be kept together. Should additional school closures be required, the application of the Level 1 filter could be relaxed, which may result in more new schools moving on in the process.

The chart below lists each of the 11 schools identified for closure, and summarizes the key aspects which support the decision to include them on the list of schools for closure. Aspects that strongly support the closure of the school are highlighted in red, aspects that fall in the middle are highlighted in yellow, and aspects that support keeping the school open are highlighted in green.

Figure 74

#	Name of School	Heritage Class	Utilization Now vs 2030	Deferred Maintenance Now vs 2030	FCI Index Now vs 2030	Seismic Status
1	Champlain Heights Annex	None	89.2% / 90.8%	\$2.6m / \$3.8m	0.65 / 1.09	Medium / Unsupported
2	Gladstone Secondary	None	66.3% / 62.3%	\$17.5m / \$32.2m	0.60 / 1.11	High 1 / Unsupported
3	Queen Alexandra Elementary	B	66.6% / 76.9%	\$4.5m / \$7.8m	0.57 / 0.98	High 1 / Unsupported
4	Queen Elizabeth Annex	None	72.5% / 76.7%	\$2.7m / \$3.5m	0.83 / 1.07	High 3 / Unsupported
5	Tecumseh Annex	None	90.8% / 70.8%	\$2.0m / \$3.4m	0.49 / 0.85	Medium / Unsupported
6	Graham D. Bruce Elementary	None	62.9% / 79.1%	\$3.0m / \$7.1m	0.44 / 1.04	High 1 / Unsupported
7	Sir Guy Carleton Elementary	A	46.7% / 48.1%	\$5.5m / \$11.4m	0.41 / 0.84	High 1 / Unsupported
8	Dr. A.R. Lord Elementary	None	40.0% / 38.1%	\$4.5m / \$7.8m	0.67 / 1.15	High 3 / Unsupported
9	McBride Annex	None	56.6% / 71.7%	\$1.7m / \$2.9m	0.62 / 1.06	High 3 / Unsupported
10	Admiral Seymour Elementary	A	26.2% / 37.1%	\$8.3m / \$11.8m	0.68 / 0.96	High 1 / Unsupported
11	Pierre Elliott Trudeau Elementary	None	66.4% / 57.4%	\$1.7m / \$5.5m	0.28 / 0.93	Completed

Source: VBE 2016 LRFP, VBE Internal Documents, and Strategic Report: Potential School Closures dated September 15, 2016

1. Champlain Heights Annex

Champlain Heights Annex is a non-heritage building with significant enrolment and utilization. However, the proximity of the Annex to Champlain Heights Elementary make it ideal for closure. Champlain Heights Elementary, share a catchment with the annex, and it has enough capacity to handle both student populations. Annex students already move to the main school after Grade 3.

2. Gladstone Secondary

Gladstone Secondary is a non-heritage building with one of the lowest utilization rates in the city. The school also has high deferred maintenance, and due to the low enrolment, funding for the school has been inadequate. This results in increasing deferred maintenance year over year, and the FCI index of the school is expected to be above 1 by 2030, meaning that it would be cheaper to build a completely new school. The school has not been approved for seismic upgrades and has been designated as high seismic risk.

If approved for closure, students would be accommodated at Windermere Secondary, Vancouver Technical Secondary, John Oliver Secondary and Tupper Secondary. The buildings at Tupper Secondary and Vancouver Technical Secondary have already been seismically upgraded, so students would be educated at a safer school. With the incoming students, John Oliver and Windermere's new enrolment makes those sites better candidates for seismic upgrades or for new school buildings in the coming years.

3. Queen Alexandra Elementary

Queen Alexandra Elementary is a B heritage building, meaning that the site represents a good example of a particular style or type, either individually or collectively. It may have some documented historical or cultural significance in the neighborhood. Enrolment in the school is low. The school also has high deferred maintenance, high seismic risk, and has not been approved for seismic upgrading.

If approved for closure, students would be accommodated at Grandview Elementary and Florence Nightingale Elementary. By combining these three school communities into two sites at Grandview Elementary and Florence Nightingale Elementary, VSD can make a stronger case for funding to complete the seismic upgrading of these two schools.

4. Queen Elizabeth Annex

Queen Elizabeth Annex is a non-heritage building, with low enrolment, high and increasing deferred maintenance, and high seismic risk. The proximity of the annex to Queen Elizabeth Elementary also makes this an ideal candidate for closure. The primary French Immersion program is also able to be accommodated at Queen Elizabeth Elementary.

Consolidating the French Immersion program could support closer connections and collaboration between staff and students in this primary program and the main school program at École Jules Quesnel, where students already go after Grade 3.

5. Tecumseh Annex

Tecumseh Annex is another school site that is attached to an elementary school. Although enrolment at the annex is good at the moment, it is predicted that enrolment will fall for the annex due to shifting demographics. Tecumseh Elementary, which shares a catchment with the annex, has the capacity to accommodate the students, and has also been seismically upgraded.

6. Graham D. Bruce Elementary

Graham D. Bruce Elementary is a non-heritage school building with low enrolment. Enrolment is expected to increase as the school is located in an area that is expected to see significant growth. However, the proximity of the school to other similar elementary school buildings means that there is significant benefit in closing one school to consolidate the student population.

If approved for closure, students would be accommodated at Grenfell and Collingwood Annex. Collingwood would become the annex of Grenfell Elementary. Both Bruce and Grenfell are in need of seismic upgrading. By combining the school communities, VBE can make a stronger case for potentially building a replacement school for this community.

7. Sir Guy Carleton Elementary

Sir Guy Carleton Elementary is a heritage A building, which means the site represents the best example of a style or type of building. It may be associated with a person or event of significance, or early pattern of development. Carleton Elementary has one of the lowest utilization rates for the schools in the city, and is also at a very high seismic risk.

If approved for closure, students would be accommodated at Cunningham Elementary and MacCorkindale Elementary. By combining these three school communities into two sites at MacCorkindale Elementary and Cunningham Elementary, VBE can make a stronger case for funding to complete the seismic upgrading of these two schools.

8. Dr. A. R. Lord Elementary

Dr. A. R. Lord Elementary is a non-heritage school building with one of the lowest utilization rates in the VSD. It also has a high level of deferred maintenance, and has high seismic risk. If approved for closure students would be accommodated at Begbie Elementary, which is on the priority list for seismic upgrading, and would therefore be able to provide the students with a safe environment for learning.

9. McBride Annex

McBride Annex is another annex attached to a main school. Students enrolled at McBride Annex already move to the main school for grade four and McBride Elementary has also already been seismically upgraded.

10. Admiral Seymour Elementary

Admiral Seymour Elementary is a heritage A building, which means the site represents the best example of a style or type of building. It may be associated with a person or event of significance, or early pattern of development. Seymour Elementary has one of the lowest utilization rates for the schools in the city, and is also at a very high seismic risk.

If approved for closure, students would be accommodated at Strathcona Elementary. This would not occur until 2018/19 after seismic upgrading of Strathcona Elementary is complete and once the new school at International Village is open.

11. Pierre Elliott Trudeau Elementary

Pierre Elliott Trudeau Elementary has already been seismically upgraded and has low levels of deferred maintenance. However, falling enrolment in the school means that there is a possibility that there would be a more optimal use for the building. If approved for closure, students would be accommodated at Walter Moberly Elementary. Walter Moberly Elementary has also been seismically upgraded, placing students in a seismically safe school.

8.4.5.2 Costs savings associated with the proposed school closures

The costs savings associated with the proposed school closures can be divided into three categories:

1. Facility Related Cost Savings - Annual costs that are directly related to a school and can be avoided if the school is no longer in operation. Salary and benefits of administration (School administrators, school office staff, supervision aides, custodial and cafeteria staff); whereas, costs related to instruction (teachers and teacher assistants) are directly linked to students and move with students when they are reassigned to other schools;
2. Seismic Mitigation Plan Related Cost Savings - Closing the schools will mean fewer schools will need to undergo seismic mitigation and this will help to meet the target completion by 2030; and
3. Deferred Maintenance Cost Savings- Closing the schools will mean avoiding deferred maintenance costs as current funding levels are inadequate to perform all the planned maintenance work.

Each of these cost savings are explained in detail below.

1) Facility related cost savings

Facility related costs are annual expenses that can be directly attributed to the operation and maintenance of the school, which could be saved if a school is no longer in operation.

The following table provides the average annual facility related operating costs per type of school, which has been calculated by the VBE based on the average of each type of school from the total list of 110. These numbers differ slightly from those reported in the EY 2015 Report as the VBE has done a more detailed estimate of various costs. In particular, the updated numbers shown below include savings from teaching staff that would be displaced as a result of the proposed school closure that was not taken into consideration in the EY 2015 Report. Teaching costs savings relate to capacity rationalization savings as a result of consolidating classrooms. The majority of teachers would still move to where the students are hosted.

Figure 75

Average Annual Facility Related Operating Costs			
	Annex	Main	Secondary
Office & Admin Staffing	\$106,000	\$252,000	\$497,000
Utilities & Custodial Supplies	\$89,000	\$182,000	\$694,000
Maintenance & Construction Costs	\$28,000	\$82,000	\$331,000
Cafeteria Costs	-	-	\$153,000
Teaching Costs	\$25,000	\$116,000	\$280,000
Subtotal	\$248,000	\$632,000	\$1,955,000
Less: Mothball costs*	(\$20,000)	(\$54,000)	(\$210,000)
Net Operating Cost Savings**	\$228,000	\$578,000	\$1,745,000

*Mothballing costs are incurred if facility is not in use for swing space, or being leased out

**The actual savings that would be achieved from any school closure that is approved by the VBE will depend on the specific schools that are considered. The above figures are averages of all 110 schools and are simply provided to illustrate the potential financial savings.

Source: VBE Strategic Report: Potential School Closures dated September 15, 2016

As noted above, it is also important to consider mothballing costs, which are the costs associated with maintaining a vacant school to a baseline level, such that the facility is able to be restored quickly if needed. Should a school be closed and not utilized for another purpose, the VBE estimates that mothballing costs for an annex is \$20,000, \$54,000 for an elementary school, and a \$210,000 for a secondary school.

As analyzed, there are numerous cost savings through reducing the surplus capacity. If a school that is not needed is closed, the costs of operating those schools can be realized into operational savings, and redistributed to fund numerous initiatives. The savings could be utilized to increase the funding for the classroom, directly offsetting the Level 3 and Level 4 budgetary cutbacks (discussed elsewhere in this report) and to complete deferred maintenance work.

Facility related costs specific to the 11 proposed schools are discussed below.

Facility related cost savings specific to 11 proposed schools

The VBE has calculated the annual facility related cost savings that could potentially be realized if the 11 aforementioned sites were closed down. The chart below summarizes the cost savings anticipated by school throughout SY2017/18 to SY2030/31. The SY2017/18 is when the schools are expected to be closed (with exception of Admiral Seymour Elementary school which is projected to be closed in SY2018/19), assuming the Trustee's, following the consultation process, vote in favour of school closure.

Figure 76

In (000's)	17/18	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26	26/27	27/28	28/29	29/30	30/31
Champlain Heights Annex	150	171	171	171	171	171	171	171	171	171	171	171	171	171
Gladstone Secondary	1,476	1,740	1,740	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,958	1,740	1,740
Queen Alexandra Elementary	565	619	619	667	667	667	667	667	667	667	667	667	667	619
Queen Elizabeth Annex	149	167	167	167	167	167	167	167	167	167	167	167	167	167
Tecumseh Annex	172	192	192	192	192	192	192	192	192	192	192	192	192	192
Graham D. Bruce Elementary	526	578	578	578	578	578	578	578	578	578	578	578	578	578
Sir Guy Carleton Elementary	459	541	489	541	541	541	541	541	541	541	541	489	489	489
Dr. A.R. Lord Elementary	536	588	588	632	632	632	632	632	632	632	632	632	632	588
McBride Annex	244	264	264	264	264	264	264	264	264	264	264	264	264	264
Admiral Seymour Elementary	-	364	437	437	437	437	479	479	479	479	479	479	479	479
Pierre Elliott Trudeau Elementary	425	467	467	505	505	505	505	505	505	505	505	437	437	437
Total	4,702	5,691	5,712	6,112	6,112	6,112	6,154	6,154	6,154	6,154	6,154	6,034	5,816	5,724

Source: VBE Internal Documents and VBE 2016 LRFP

Note: When a school is being utilized as swing space, it has been highlighted in yellow.

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The initial savings of closing down the schools is estimated to start at \$4.7M in SY2017/2018, and build up to \$6.1M between SY2020/2021 and SY2026/2027. The costs then reduce and stabilize around \$5.7m in the years thereafter. The cost savings are reduced once the facility is no longer being utilized as swing space and as a result of the occurrence of on-going mothball costs.

The different phases of cost savings result from the following:

- ▶ Closing Costs - In the beginning closing costs are expected to be incurred. Closing costs are the cost of locking down the building, turning off all non-essential utilities, cleaning up the school, and maintaining basic security. These costs are one-time.
- ▶ Swing Space - In the years highlighted in yellow above, the vacant schools are expected to be utilized as swing space. Accordingly, there will be cost savings realized to the operational budget as explained below:
 - ▶ Host Schools - The schools highlighted in yellow above are the "Host Schools", i.e. a vacant school that is suitable to host other schools that will need to undergo deferred maintenance or seismic mitigation plan projects and require temporary accommodation to host their students and teachers.
 - ▶ Visiting Schools - The school undergoing capital projects are "Visiting Schools", which require temporary accommodation and will relocate their students and teachers to a host school.

A host school that is vacant incurs mothballing costs to maintain the building at a base minimum level. When a visiting school moves to a host school, the host school is no longer vacant and will be functioning at full operations (i.e. no mothballing costs). The visiting school's site is now vacant, but there are no mothballing costs associated with the maintenance of that site because the maintenance is undergoing capital projects and the mothballing costs are capitalized as it is related to construction.

- ▶ Mothballing costs - As the seismic upgrades are completed, assuming that the schools become vacant again, mothballing costs would be incurred indefinitely or until the site is designated for an alternative purpose, such as: (i) leasing to a tenant as part of a revenue generating undertaking, or (ii) selling for redevelopment or (iii) other purpose. Mothballing costs are calculated by taking the utility costs at typical full operation of a school and reducing it to the base minimum level to maintain the vacant building.
- ▶ The operating costs that will be saved as a result of these school closures could be redirected towards the remainder of the schools, which will increase the amount of funding on a per school basis. The VSD could spend less on building operations, reduce administrative costs, and redirect these funds towards educational spending.

8.4.5.3 Seismic mitigation plan related costs savings

If the schools being closed also happen to have high seismic risk, the closure of those schools would result in significant cost savings because the cost to move those projects forward would no longer be required.

The VBE estimates that on average, seismic mitigation costs are approximately \$7M for an annex, \$8 to \$16M for an elementary school, and \$30 - \$60M for a secondary school. Seismic Mitigation costing is done through individual feasibility studies as schools are approved for funding. There are many unknown variables that are specific to each location and ranges provided by the VBE are rough estimates only.

The total anticipated SMP savings associated with the proposed 11 school closures ranges from \$98 to \$168M.

8.4.5.4 Deferred maintenance costs savings

On average, the VBE estimates that deferred maintenance costs are \$1.9M for an annex, \$3.9M for an elementary school, and \$16.9 for a secondary school. The total estimated savings from avoiding deferred maintenance for targeted school closures is estimated by the VBE to be \$64.8M. The costs are calculated as the average deferred maintenance for each type of school from the total population of 110. The VBE's estimates are based on a study commissioned by the MEd back in 2009. VFA performed a series of facilities condition studies for each school in BC, and conducted walkthroughs at the VSD's schools to identify building and site maintenance items and estimated the cost to replace each item at the end of its estimated useful life. The results were released over the following years as the studies were completed. Utilizing 2013 figures provided by VFA, and taking into account average additional deferred maintenance year over year, the VBE is able to provide a rough estimate of each school's deferred maintenance.

Although, the costs avoided as part of the SMP and deferred maintenance are one-time cost savings, they could result in a significant relief of capital funds which could then be utilized to better the VBE facilities plan taken as a whole. The funds that would be saved through the avoidance of costs associated with the deferred maintenance of the proposed schools, could mean that the remaining school facilities will have additional funding to perform much needed capital projects.

Seismic Mitigation and Deferred Maintenance Cost Savings Specific to 11 Proposed Schools

Utilizing the average seismic mitigation and deferred maintenance costs provided above, as well as additional analysis and specific data pertaining to the 11 proposed schools, EY has calculated an estimate of potential cost avoidance. Deferred maintenance cost savings now and in 2030 are projections which are tracked on an individual school by school basis by the VSD. However, seismic mitigation costs are done through individual feasibility studies as schools are approved for funding. As these schools have not had feasibility studies done, amounts provided are averages provided by the VSD in consultation with the Vancouver Project Office.

Figure 77

Name of School	Deferred Maintenance Cost Savings Now	Deferred Maintenance Cost Savings 2030	Seismic Mitigation Plan Cost Savings Estimate
Champlain Heights Annex	\$2.6M	\$3.8M	\$7M
Gladstone Secondary	\$17.5M	\$32.2M	\$30 to 60M
Queen Alexandra Elementary	\$4.5M	\$7.8M	\$8 to 16M
Queen Elizabeth Annex	\$2.7M	\$3.5M	\$7M
Tecumseh Annex	\$2.0M	\$3.4M	\$7M
Graham D. Bruce Elementary	\$3.0M	\$7.1M	\$8 to 16M
Sir Guy Carleton Elementary	\$5.5M	\$11.4M	\$8 to 16M
Dr. A.R. Lord Elementary	\$4.5M	\$7.8M	\$8 to 16M
McBride Annex	\$1.7M	\$2.9M	\$7M
Admiral Seymour Elementary	\$8.3M	\$11.8M	\$8 to 16M
Pierre Elliott Trudeau Elementary	\$1.7M	\$5.5M	Completed
Total	\$54.0M	\$97.2M	\$98 to \$168M

Source: VBE Strategic Report: Potential School Closures dated September 15, 2016, and VBE Internal Documents

In the EY 2015 Report, EY had estimated a potential avoidance of \$152.8M in seismic mitigation costs if 19 school sites were closed down (of which 3 had already been seismically upgraded), and a potential avoidance of \$107.9M in deferred maintenance. EY's prior estimate was based on a combination of a 2007 estimate of SMP upgrade construction costs, and a 2013 study performed by VFA.

8.4.6 VBE surplus assets

The VBE currently has surplus assets that are non-essential and not currently required for educational purposes. These surplus assets can be divided into the following categories:

1. Vacant School Properties;
2. Non-School Properties;
3. Surplus School Lands; and
4. Kingsgate Mall.

VBE's revenue from rentals and leases of surplus assets expected for SY2016/17 amounts to approximately \$4.5m, specifically:

- ▶ Short-term rentals of the surplus space in school properties to community groups generate \$2.1M in annual operating revenue. Examples of current leases are:
 - ▶ Lease of two outbuildings at Carleton Elementary to Green Thumb Theatre Society;
 - ▶ Lease of Shannon Park Annex to the Vancouver Hebrew Academy; and
 - ▶ Lease of space for a dental clinic at Strathcona Elementary.
- ▶ Leasing of non-essential sites not required for education purposes currently generates \$2.4M annually. Current lease arrangements in place for schools and non-essential buildings include:
 - ▶ A variety of leases for community use (i.e. evening and weekend gym rentals);

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- ▶ Leases to childcare providers (without margin because revenues are required to not exceed direct and indirect costs, as required by the *School Act*); and
- ▶ Kingsgate Mall rental income.

The VBE has an opportunity to optimize the return on certain properties, which could result in significant revenue generation and supplement funding available to the VBE. In order to gain a better understanding of the value of these assets, the VBE had engaged reputable real-estate professionals to assess the potential options available to them in regards to these properties.

EY has identified, in collaboration with the VBE, specific surplus asset revenue opportunities, with the purpose to consider additional lease income, where possible. A summary of all the lease revenue opportunities identified by EY is reported below. In the sections following, each opportunity is described in detail, highlighting the considerations underlying the surplus asset revenue opportunities.

Recommendation #14: VBE should seek the means to maximize the value attributable to its asset rationalization program. The maximization approach would include: (i) a strategic review of the real estate assets by a qualified professional having regard to 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. Please refer to the School Closure Supplemental Report for further discussion.

Figure 78

1. Vacant school properties				
Property	Sq. Ft.	Lease Term*	\$ / Sq. Foot**	Annual Gross Income
Pending Closure and Closed Annexes				
Laurier Annex	13,878	25 Years	\$14.40	\$200,000
Henderson Annex	15,052	25 Years	\$11.60	\$175,000
Maquinna Annex	14,503	25 Years	\$8.60	\$125,000
Subtotal - Pending Closure and Closed Annexes (A)	43,433		\$11.53	\$500,000
11 Proposed School Closures				
Champlain Heights Annex	17,109	25 Years	\$11.53	\$197,000
Queen Elizabeth Annex	14,067	25 Years	\$11.53	\$162,000
Tecumseh Annex	15,905	25 Years	\$11.53	\$183,000
Graham D. Bruce Elementary	42,581	25 Years	\$9.23	\$393,000
McBride Annex	15,995	25 Years	\$11.53	\$184,000
Subtotal - Not Committed as Swing Space (B)	105,657			
Admiral Seymour Elementary	37,699	25 Years	\$9.23	\$348,000
Gladstone Secondary	213,470	25 Years	\$8.07	\$1,723,000
Queen Alexandra Elementary	45,518	25 Years	\$9.23	\$402,000
Sir Guy Carleton Elementary	46,796	25 Years	\$9.23	\$432,000
Dr. A. R. Lord Elementary	41,567	25 Years	\$9.23	\$384,000
Pierre Elliott Trudeau Elementary	34,091	25 Years	\$9.23	\$315,000
Subtotal - Committed as Swing Space (C)	417,141			\$3,604,000
11 Proposed School Closures (D=B+C)	522,798			\$4,723,000

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Grand Total (A+D)		566,231		\$9.22	\$5,223,000
2. Non-school properties					
Property		Sq. Ft.	Lease Term*	\$ / Sq. Foot**	Annual Gross Income
VSBC Ground Maintenance Workshop		113,021	10 - 20 Years	\$9.80	\$1,108,000
VSBC Maintenance Construction Facility Parking Lot		9,149	10 - 20 Years	\$5.00	\$46,000
VSBC Maintenance Construction Facility		87,188	10 - 20 Years	\$9.80	\$854,000
Total		209,538		\$9.59	\$2,008,000
3. Surplus school lands					
Property Name		Address	Property Name		Address
Vancouver Technical Secondary		2600 East Broadway	Brock Elementary		4860 Main St.
John Oliver Secondary		530 E. 41st Ave	Southlands Elementary		5351 Camosun St.
Carleton Elementary		3250 Kingsway	Mackenzie Elementary		960 E. 39th Av.
Prince of Wales Secondary		2250 Eddington Dr	Carr Elementary		4070 Oak St.
Hamber Secondary		5025 Willow St	Kingsford-Smith Elementary		6901 Elliott St.
King George Secondary		1755 Barclay St	Laurier Elementary		7350 Laurel St.
Hudson Elementary		1551 Cypress St	Macdonald Elementary		1950 E. Hastings St.
Lord Elementary		555 Lillooet St.			
4. Kingsgate Mall proposed lease					
Proposed Redevelopment	Agreement	Max Sq. Ft.	\$ Per Sq. Ft.		
Commercial	C-3A	138,695	110,000		

Source: Various market reports and EY's own assumptions which have been described in detail under each respective section.

8.4.7 Vacant school properties

The vacant school properties include:

- ▶ The unused school annexes, being Maquinna Annex, Henderson Annex, and Laurier Annex; and
- ▶ The 11 proposed school closures (discussed above).

Unused school annexes

Maquinna Annex, Henderson Annex, and Laurier Annex have no enrolment for the SY2016/17. As aforementioned, Maquinna Annex is already closed while Henderson Annex, and Laurier Annex are expected to be closed by the SY2017/18. These annexes are unable to be utilized as swing space, and/or host for other schools that need temporary accommodation.

On May 12, 2016, the VBE received a report from a reputable Vancouver based real estate brokerage firm outlining the potential lease revenues that may be generated if these 3 annexes were to be marketed for rent. The report estimated that the three annexes could generate annual gross income of \$425,000 to \$500,000.

Figure 79

Unused school annexes leasing projections					
Property	Address	Square Feet	Lease Term	\$ / Sq. Foot	Annual Gross Income
Laurier Annex	590 W. 65 th Ave	13,878	3 - 5 Years	\$12.6 - \$14.4	\$175,000 - \$200,000
Henderson Annex	801 E. 54 th Ave	15,052	3 - 5 Years	\$10.0 - \$11.6	\$150,000 - \$175,000
Maquinna Annex	2882 E. 4 th Ave	14,503	3 - 5 Years	\$6.9 - \$8.6	\$100,000 - \$125,000
Total		43,433		\$9.8 - \$11.5	\$425,000 - \$500,000

Source: May 12, 2016 Report from a reputable Vancouver based real estate brokerage firm

The report includes the following key assumptions:

- ▶ Lease Timing: Secure tenants as early as possible, for approximately 3 - 5 years, with possible renewal options; and
- ▶ Target Tenants: Ideally have a connection to educational or training uses to best utilize the current space and configuration

Taking the annual gross income (\$425,000 to \$500,000) and dividing it by the square footage (43,433), the estimated price per square foot is \$9.78 to \$11.51. This is low considering the area and the size of the properties, and can be explained by the following reasons.

- ▶ The lease term timing being considered is only 3 - 5 years, and this greatly reduces the amount of lease income that could potentially be generated. Tenants generally do not want to invest heavily into leasehold improvements for short term leases, as they have no certainty over their rental costs after the short time period.
- ▶ Tenants typically favor longer term leases in order to blend their costs of moving, construction and other set-up costs over a longer period of time.

The report was commissioned prior to the VBE's final decision on leasing criteria. On June 15, 2016, the VBE resolved that leasing of school space be restricted away from independent schools (which was a key criteria to the establishment of leasing value in the fore-noted report). The current configuration of the building would require substantial upgrades or modification should it be leased out to an organization that is not related to education.

Given the Board's leasing criteria, this will result in challenges to obtain the best value for the lease, and the projected lease revenue will likely be substantially lower than that outlined in the report.

Leasing opportunity

To realize the highest value for the vacant school properties (absent a disposition of the associated real estate), EY has considered the leasing potential unrestricted by the current prohibition of leasing to independent schools. It is important to note that the opportunity outlined below also includes the 3 annexes identified above, and should not be double counted in any assessment of potential gross income.

Specifically, an assumption has been made by EY that the VSD will, and is able to, enter into a lease agreement with third party educational institutions or others on market terms, including the MEd on a head lease basis. The term of the lease could be, for example, a 25 year lease, 10 year term, with 3 subsequent 5 year options. Each of the options will have rent escalators that have not been defined for the purposes of this analysis.

Figure 80

Lease projections				
Property	Sq. ft.	Lease term	\$/sq. foot	Annual gross income
<u>Pending closure and closed annexes</u>				
Laurier Annex	13,878	25 Years	\$14.40	\$200,000
Henderson Annex	15,052	25 Years	\$11.60	\$175,000
Maquinna Annex	14,503	25 Years	\$8.60	\$125,000
Subtotal - Pending Closure and Closed Annexes (A)	43,433		\$11.53	\$500,000
<u>11 proposed school closures</u>				
Champlain Heights Annex	17,109	25 Years	\$11.53	\$197,000
Queen Elizabeth Annex	14,067	25 Years	\$11.53	\$162,000
Tecumseh Annex	15,905	25 Years	\$11.53	\$183,000
Graham D. Bruce Elementary	42,581	25 Years	\$9.23	\$393,000
McBride Annex	15,995	25 Years	\$11.53	\$184,000
Subtotal - Not committed as swing space (B)	105,657			
Admiral Seymour Elementary	37,699	25 Years	\$9.23	\$348,000
Gladstone Secondary	213,470	25 Years	\$8.07	\$1,723,000
Queen Alexandra Elementary	45,518	25 Years	\$9.23	\$402,000
Sir Guy Carleton Elementary	46,796	25 Years	\$9.23	\$432,000
Dr. A. R. Lord Elementary	41,567	25 Years	\$9.23	\$384,000
Pierre Elliott Trudeau Elementary	34,091	25 Years	\$9.23	\$315,000
Subtotal - Committed as swing space (C)	417,141			\$3,604,000
11 Proposed school closures (D=B+C)	522,798			\$4,723,000
Grand total (A+D)	566,231		\$9.22	\$5,223,000

Source: May 12, 2016 Report from a reputable Vancouver based real estate brokerage firm with EY's own assumptions.

EY estimated that while an annex could realistically achieve the rates determined by the aforementioned report released by a reputable Vancouver based real estate brokerage firm, an elementary and secondary school might not, mainly due to the difference in size of the properties. As a result, EY performed the following calculations to estimate the rates for the other properties:

- ▶ Annexes: average rate of annexes determined by the brokerage (i.e. $\$14.4 + \$11.6 + \$8.6$ divided by 3 = $\$11.53$ / sq. ft.);
- ▶ Elementary Schools: 20% discount (i.e. $\$11.53 \times 0.8 = \9.23 / sq. ft.); and
- ▶ Secondary Schools: 30% discount (i.e. $\$11.53 \times 0.7 = \8.07 / sq. ft.).

EY has identified key considerations that may affect the rental rates, for which further study should be undertaken:

- ▶ The conditions of the building have significant levels of deferred maintenance and are of a high seismic risk. A potential tenant would have to make improvements to the building prior to occupancy. This may impact the rental rates as tenant improvement allowances have not been considered in this analysis.
- ▶ Given the number of buildings and the amount of square footage that the VBE wants to lease out, it will take time to find suitable tenants. The type of tenant that would likely lease these spaces would be special purpose groups, independent schools, or other non-profits. These groups generally are not able to afford premium rates. Consideration also needs to be made in regards to absorption as renting out all of these properties in a short-time span will require adequate demand.
- ▶ The size of the buildings and the square footage available are also large relative to the type of tenants that would be able to utilize the space. It might be difficult for all of the square footage to be leased out to one single tenant, and finding multiple tenants to share the space may be a challenge.
- ▶ Numerous of the foregoing facilities would be subject to retention by the VSD for purpose of the SMP at alternative facilities and, as such, the timing of the commencement of a lease to a third party would be subject to the ending of the facilities host responsibilities. The timing of the lease will impact all aspects of the leasing returns, based on assumptions that will be applicable at the time of leasing availability.

EY estimates that the lease opportunity could result in \$5.2M of annual lease revenue if all sites were to be rented out, but could be substantially less due to the aforementioned considerations.

Recommendation #15: VBE should engage 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 following a final determination of the facilities disposition by the Trustees. The timing of the engagement of the real estate professionals must be aligned with the staggered period to which the facilities will become available for alternative use following the facility's hosting responsibility as swing space. Please refer to the School Closure Supplemental Report for further discussion.

Recommendation #16: VBE should review all policies approved by the Board that would limit the ability of the VBE to achieve proceed generation and revenue opportunities associated with the foregoing assets. Specifically, this would include a review of the June 15, 2016 policy limiting the VBE to lease existing surplus assets to other private education institutions. Please refer to the School Closure Supplemental Report for further discussion.

8.4.8 Non-school properties

The VBE has identified the following three Non-School Properties:

1. the Maintenance Workshop;
2. the Grounds Yard; and
3. the Education Centre.

The Education Centre, Maintenance Yard, and Grounds Yard are all currently being used by the VBE. Some revenue is being generated from leasing portions of each of these buildings. On July 7, 2016, the VBE received a report from a reputable Vancouver based real estate brokerage firm outlining the potential sale value of the Maintenance Workshop and Grounds Yard.

No report has been requested so far by the VBE for the Education Centre. The Education Centre is the current headquarters of the VBE and the VBE does not expect there is any additional revenue generation opportunities from this property as it is fully utilized. As such, the Education Centre has been excluded from further discussion in this report.

The following table summarizes the potential sale value of the Maintenance Workshop and Grounds Yard. The real estate professional, in determining the value range of these sites, has utilized the direct comparison approach, which essentially means that the property is being valued at a price comparative to properties that have recently sold or are currently listed in the surrounding area.

Figure 81

Non-school properties			
Property	Address	Sq. Ft.	Value Range (\$M)
Non-School Properties			
VSB Maintenance Workshop ⁽¹⁾	5959 Wales Street	113,021	\$25.0 - \$33.9
VSB Grounds Yard Parking Lot ⁽²⁾	1471 Clark Drive,	9,149	\$2.7
VSB Grounds Yard Facility ⁽²⁾	1549 Clark Drive	87,188	\$26.0 - \$36.0
Education Centre	Excluded from this analysis		
Total		209,538	\$71.9 - \$97.8

Source: July 7, 2016 Report from a reputable Vancouver based real estate brokerage firm, VBE 2016 LRFP.

1. Maintenance workshop

The Maintenance Workshop located on 5959 Wales Street is currently zoned as RS-1, which is a single family zoning and is consistent with the surrounding single family developments. By utilizing the price per square foot of land for RS-1 zoned lots near the site of \$300, the real estate professional has estimated the valuation of this facility to be \$33.9M if the site was to be sold at that rate as a whole.

A conservative estimate has also been provided with the assumption that the lot would be subdivided into its maximum of 22 single family lots. Assuming the same rate per square foot, and accounting for potential price pressures due to the sale of numerous lots in the vicinity, the value is estimated at \$25M.

2. Grounds yard

The Grounds Yard is the collective group of properties of 1471, 1491, and 1549 Clark Drive. Collectively, the 3 parcels make up 96,337 square feet of industrial zoned land (I-2).

The report estimates that if the properties were to be sold as vacant land, it has a value estimated at \$2.7M for the parking lot and value of \$26M to \$36M for the Construction Facility. The approach assumes the current facilities would be demolished and that a new building would be constructed. The real estate professional then uses comparable land sales with the same zoning and similar lot sizes to arrive at the estimated value. The low end of the range for the Construction Facility is a conservative estimate due to the size and location of some of the properties. The high end of the range for the Construction Facility takes into consideration that Vancouver has a constrained industrial supply, and a high investor demand.

Additional studies are currently underway on the Maintenance Workshop and the Ground Yard, focusing on exploration of an option to amalgamate these two functions within one new building on a shared site. If this were to occur, the district would have the option to lease, sell or develop the unused property.

Estimate of Lease Revenue of Non-School Properties

The report done by the real estate brokerage was designed to determine the fair market value if the properties were to be sold. EY has estimated the potential lease revenue that could be generated should the properties be leased out to third parties in order to generate recurring revenue which could be utilized in the operational budget. EY assumed a lease term of 10 to 20 years, with possible future extensions and rent escalators.

To estimate the potential annual gross income, EY has obtained lease rates for comparable properties within the area from two reputable sources, and also assumed that the quality and status of these buildings are move-in ready, and that no significant leasehold improvements would be required.

Figure 82

Non-school properties				
Property	Sq. Ft.	Lease Term*	\$ / Sq. Foot**	Annual Gross Income
VSF Ground Maintenance Workshop	113,021	10 - 20 Years	\$9.80	\$1,108,000
VSF Maintenance Construction Facility Parking Lot	9,149	10 - 20 Years	\$5.00	\$46,000
VSF Maintenance Construction Facility	87,188	10 - 20 Years	\$9.80	\$854,000
Total	209,538		\$9.59	\$2,008,000

Source: July 7, 2016 Report from a reputable Vancouver based real estate brokerage firm with EY's own assumptions.

* 10 - 20 year lease, possible future options and rent escalators

** The rates were obtained through a market report prepared by a reputable Vancouver based brokerage, which outlines the average rate for comparable buildings.

*** EY also reviewed comparable leasable industrial property in the areas pertaining to the foregoing based on CBRE reported listings at September 9, 2016, which properties range for lease at between \$8.50/sf to \$11.00/sf.

Assuming the VBE is allowed to and is able to lease the properties to third parties who will pay fair market rates, an estimated \$2M in annual gross income could be generated.

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8.4.9 Surplus school lands

The VBE has also identified that certain portions of school grounds could be used to generate capital and additional revenue.

There are 15 properties within the VBE school portfolio that could potentially be subdivided and sold or leased for alternative purposes. Subdividing a portion of land was successfully undertaken on lands comprising Queen Mary Elementary site; such land was sold for a residential development.

Studies are currently underway to determine potential opportunities for portions of school sites to be developed or sold without impacting on the operation of the school. A master plan for land usage is under progress and will be presented to the VBE in early 2017. The following are the school sites being considered for subdivision and lease.

Figure 83

Surplus school lands			
Property Name	Address	Property Name	Address
Vancouver Technical Secondary	2600 East Broadway	Brock Elementary	4860 Main St.
John Oliver Secondary	530 E. 41st Ave	Southlands Elementary	5351 Camosun St.
Carleton Elementary	3250 Kingsway	Mackenzie Elementary	960 E. 39th Av.
Prince of Wales Secondary	2250 Eddington Dr	Carr Elementary	4070 Oak St.
Hamber Secondary	5025 Willow St	Kingsford-Smith Elementary	6901 Elliott St.
King George Secondary	1755 Barclay St	Laurier Elementary	7350 Laurel St.
Hudson Elementary	1551 Cypress St	Macdonald Elementary	1950 E. Hastings St.
Lord Elementary	555 Lillooet St.		

Source: VBE 2016 LRFP

The sale and/or development of portions of school sites, as outlined above is consistent with current Board policy which states:

The VBE commit to not sell school lands but maintain or increase our current number of school sites, to preserve neighborhood sites for current and future educational and community use. This would not preclude land swaps or the sale of portions of school sites provided that education programs could still be offered.

EY has identified the following considerations, for which further study should be undertaken by a professional real estate services firm:

- ▶ The current portions of the land being considered for subdivision are not always empty and may have buildings unsuitable for the intended retail or commercial purposes of a tenant.
- ▶ Value of the school grounds are affected by the current zoning, official community plan, floor space ratio; existing land uses of neighbouring areas, community consultation, and other factors.

Recommendation #17: VBE should continue its efforts, and accelerate same where possible, to identify surplus lands associated with existing and operating school facilities that may be subdivided for alternative use, resulting in the monetization of value for the VBE and the benefit of an alternative asset for the community at large.

8.4.10 Kingsgate Mall

Kingsgate Mall is a development owned by the Beedie Group, which is built on land owned by the VBE. The original purchase of the land by the VBE dates back to 1892, with subsequent acquisitions to the surrounding parcel throughout the years. The surrounding areas are well served by numerous elementary and secondary schools, and projected enrolment studies show that the space would not be required for future enrolment.

The property is situated at the juncture of East Broadway and Kingsway, and are both major arterial routes with the City of Vancouver. Broadway is one of the main east/west routes through the central part of the city and connects the University of British Columbia to the west with the Lougheed Highway to the east. Kingsway is a six lane arterial route connecting New Westminister in the southeast with the central core of Vancouver to the northwest and passes diagonally through East Vancouver and the city of Burnaby.

Local bus routes in the area run along Broadway and Kingsway, with SkyTrain stations readily accessible. It is a landmark of the area, and has been mentioned as a key centerpiece that is part of the official City of Vancouver Community Plan for the Mt. Pleasant neighbourhood.

The location is shown below, and it is situated in the Broadway corridor. The area is expected to have increasing density, and is also the site of a proposed public rapid transit development. The Mt. Pleasant community plan specifically highlights the Kingsgate Mall as one of three key sites, with potential to pursue additional height and density due to its size and location.



The property is currently zoned as C-3A, which is defined by the City of Vancouver as follows: *Allows for a wide range of goods and services, maintains commercial activities and some light manufacturing, preserves the character of the District, and allows dwelling uses that are compatible with commercial uses.*

The current zoning allows for maximum structure heights of 30 feet, and a floor space ratio ("FSR") of 3.00.

The property is currently generating lease revenue, and as a result of the budgetary pressures, and need for additional funding, the VBE commissioned studies for potential options and to develop a plan for further consideration. Any negotiations regarding the sale of the Kingsgate Mall site requires public consultation and input. Negotiations with the Beedie Group pertaining to alternative uses for the Kingsgate Mall have not been reopened; however, are expected to be reinitiated in the near term.

Based on a potential redevelopment which would have a commercial and a residential component, EY estimated that the gross value of the real estate associated with the Kingsgate Mall at an amount exceeding \$120M. The estimated value does not take into consideration transaction costs and closing costs which may be required.

Recommendation #18: VBE should engage with the Beedie Group to develop an alternative approach to the lands to realize the underlying market value associated therewith, which we estimate at an amount not less than \$120M. The estimated value does not take into consideration transaction costs and closing costs which may be required.

Recommendation #19: VBE should enter into discussions with the MEd to achieve an agreement that could allow the VBE to achieve early crystallization of value and an alternative income stream associated with the Kingsgate Mall; to assist with rectifying its on-going budgetary constraints.

SY2017/2018 projections

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9 SY2017/18 projections

9.1 Breakdown of SY2017/18 shortfall projection

As presented in the table below, the challenge for the next fiscal year SY2017/18 will be to balance the preliminary budget, which is currently projected to be a shortfall of \$14.90M.

The accumulated surplus balance, of which a large portion was used to balance the SY2016/17 budget, is projected to be \$1.1M¹ by the end of SY2016/17. The accumulated surplus remaining will not be sufficient to fund this projected shortfall and the VBE will have to look to alternative means to table a balanced budget.

Figure 84

2017/2018 Preliminary Operating Budget Projections (\$M)	2017/2018	Notes
Costs Not Funded by the Province		
Salary Increments	(1.26)	1
Employee Benefits Increase	(0.42)	2
Inflation (on Utilities only)	(0.19)	3
	(1.87)	
Enrolment Change (decline of 196 FTE)	(1.51)	4
Prior Year's Surplus		
15/16 Projected Operating Surplus Carry Forward to 16/17	(1.10)	5
Use of 2014/15 Unrestricted surplus	(0.87)	6
	(1.97)	
Prior Year One-Time Revenue and Expenses	0.80	7
Reversal of One-Time Budget Proposals	(8.29)	8
Pay-back of School Balances	(2.06)	9
	(9.55)	
Total Projected Surplus / (Shortfall)	(14.90)	

Source: Revised preliminary budget proposals (2016/2017); 2016/2017 budget proposal summary provided by VBE

¹ EY was notified by the MEd that there is an underestimation of the accumulated operating surplus balance for SY2015/16 in the range of \$1.0 million-\$1.6 million, which would affect the ending accumulated operating surplus balance of \$10.4 million for SY2015/16. As a consequence, the projected accumulated operating surplus for SY2016/17 of \$1.0 million would also be affected, resulting in a revised accumulated operating surplus in the range of \$2.1 million to \$2.6 million. EY has not had the opportunity to verify this underestimation with management of the VSB and therefore the figures in this report reflect the projected accumulated surplus balance of \$1.1 million as at SY2016/17 per the information provided by the VSB to EY.

The significant aspects of the shortfall projected for SY2017/18 are described below:

1. **Salary Increases:** this amount is the projected shortfall due to increases in salaries. The projected increase in costs pertains to increases in salaries due to the collective agreements, which has mandated increases year over year.
2. **Employee Benefits:** this amount is the expected increases to MSP and MPP premiums and a higher cost of extended health and dental premiums based on the average of actual claims paid across all policies.
3. **Inflation:** this amount pertains to the projected shortfall due to inflationary increases for the budget. The VSD includes budgetary increases due to inflation as part of their budget process (i.e. the VSD increases their supplies budget by 1.9% to keep up with inflation). As part of the proposals to address the \$21.8M budget deficit for 2016/17, inflationary increases to the budget were removed. This was done out of necessity and was deemed to be an appropriate cost reduction proposal as it has less direct impact on classrooms. Inflation on utilities has been included as it does not fall under supplies.
4. **Enrolment Change:** this amount pertains to the net effect of reduced student funding due to decreased enrolment, offset by savings in teaching costs.
5. **SY2015/16 Projected Operating Surplus Carry Forward to SY2016/17:** this amount pertains to VBE approved carry forward of projected surplus from SY2015/16 Amended Annual Budget to SY2016/17 which is not available for use in SY2017/18.
6. **Use of 2014/15 Unrestricted surplus:** this amount pertains to unrestricted surplus at the end of 2014/15 that was used to balance SY2016/17 which is not available for use in SY2017/18.
7. **Prior Year One-Time Savings:** this amount pertains to one-time net costs included in SY2016/17 that will not repeat for SY2017/18.
8. **Reversal of One-Time Budget Proposals:** this amount pertains to the one-time budget proposals used to balance the deficit in SY2016/17. As they are not ongoing proposals, their effect will reverse in the following school year. The majority of the one-time proposals are level 1 and 2. Refer to the SY2016/17 Budget Proposals section of this report for additional details.

Reversal of one-time budget proposals (\$M)	
Level 1 & 2	8.35
Level 3	(0.06)
Level 4	-
Total	8.29

Source: 2016/2017 budget proposal summary provided by VBE

9. **Pay-back of School Balances:** One of the proposals utilized to balance the SY2016/17 budget was the borrowing of school flexible budget balances, which are funds allocated to each individual school to utilize as they see fit. Over the years these balances have accumulated and were borrowed to balance the SY2016/17 budget. This amount would have to paid-back to the schools.

9.2 Risks and opportunities for 2017/18 projection

The VBE has also identified potential considerations which they could utilize to mitigate the size of the deficit forecasted. Specifically detailed below are (i) savings as a result of the proposed school closures, (ii) potential rental of closed buildings and other assets, (iii) cuts avoided which the VBE funding subsequent to the initial VSD Management proposal would likely be reinstated, and (iv) other budget proposals.

Figure 85

2017/2018 Potential Budget Projections (\$M)	2017/2018	Notes
Projected Surplus / (Shortfall)	(14.90)	
School closure savings (including closing costs)	4.70	1
Sub-total	(10.20)	
Potential rental of closed buildings	TBD	2
Cuts avoided in 2016/17 Budget process could be re-instated in 2017/18	5.46	3
Other Budget Proposals	TBD	4
Projected Surplus / (Shortfall) with school closures and reinstated cuts	(4.74)	4

Source: Revised preliminary budget proposals (2016/2017); 2016/2017 budget proposal summary provided by VBE

Described in the table below is an analysis performed by EY with regards to the key risks and opportunities which could have a material impact on the projected shortfall.

Figure 86

Considerations	Risks and Challenges	Opportunities
1. School closures		
The projected shortfall of \$14.9M would be affected by the proposed 11 school closures. The total savings projected for 2017/18 as described in detail in the LRFP section of this report net of closing costs would be \$4.70M, taking the forecasted deficit to \$10.20M	<p>There is a risk that the schools proposed for closure may not be closed. In the past, attempts at school closures have resulted in the VBE voting to keep the schools open. Specifically in 2010, 11 schools were proposed for closure, of which 5 progressed to the public consultation stage, but it was ultimately decided that they would all be kept open.</p> <p>Impact: If the proposed 11 schools for 2016 are not closed, this could result in \$4.70M of savings not realized for the 2017/18 deficit.</p>	<p>There is also an opportunity for additional school closures, which could result in even greater savings than forecasted.</p> <p>Additional school closures are planned by the VBE for 2025. EY has recommended that the targeted school closures in the future be spread out over a few years.</p> <p>Impact: This may result in a few additional schools being closed sooner, which could help in the short-term. Furthermore, spreading out school closures over a period of years could make the process more manageable for the VBE.</p>

Considerations	Risks and Challenges	Opportunities																												
2. Rental of vacant schools and other assets																														
As described in the LRFP section, the VBE has surplus assets and vacant buildings which could potentially generate rental income to assist in balancing the budget. The amounts are estimates only and are still to be determined.	<p>On June 15, 2016, the VBE resolved that leasing of school space be restricted away from independent schools. The current configuration of the building would require substantial upgrades or modification should it be leased out to an organization that is not related to education.</p> <p>Impact: Given the Board’s leasing criteria, this will result in challenges to obtain the best value for the lease, and could make finding tenants challenging.</p>	<p>To realize the highest value for the vacant properties, EY has considered the leasing potential unrestricted by the current prohibition of leasing to independent schools.</p> <p>Specifically, an assumption has been made by EY that the VSD will, and is able to, enter into a lease agreement with third party educational institutions or others on market terms, including the MEd on a head lease basis.</p> <p>Impact: A head lease with the MEd could work around the restrictions regarding independent schools. The MEd would then be able to rent the space out to the most suitable tenants at the best market rates.</p>																												
3. Reinstated cuts avoided in SY2016/17																														
Additionally, the VBE would most likely reinstate cuts avoided in SY2016/17 due to additional funding that was received, in order to balance the SY2017/18 budget further. Refer to appendix G for a detailed breakdown of the proposals avoided which would could potentially be reinstated for SY2017/18.	<p>As presented in the table below, \$5.03M of the \$5.46M cuts avoided in SY2016/17 due to additional funding received are mostly level 3 or 4. These cuts that would be reinstated have a high impact on student learning and teaching, and there is a possibility that the detrimental effect on student learning be too great to implement.</p> <table><tr><th colspan="4">One-time vs. ongoing avoided in SY2016/17</th></tr><tr><th>Impact Level</th><th>One-Time</th><th>(\$M) Ongoing</th><th>Total</th></tr><tr><td>L1</td><td>(0.28)</td><td>0.35</td><td>0.07</td></tr><tr><td>L2</td><td>-</td><td>0.36</td><td>0.36</td></tr><tr><td>L3</td><td>-</td><td>1.02</td><td>1.02</td></tr><tr><td>L4</td><td>-</td><td>4.01</td><td>4.01</td></tr><tr><td>Total</td><td>(0.28)</td><td>5.74</td><td>5.46</td></tr></table> <p>Impact: If the proposed cuts avoided in 2016/17 are not reinstated, this could result in \$5.46M of savings not realized for the 2017/18 deficit.</p>	One-time vs. ongoing avoided in SY2016/17				Impact Level	One-Time	(\$M) Ongoing	Total	L1	(0.28)	0.35	0.07	L2	-	0.36	0.36	L3	-	1.02	1.02	L4	-	4.01	4.01	Total	(0.28)	5.74	5.46	<p>Perhaps there exists an opportunity to critically review the proposed cuts to be reinstated and question the true impact of each on student teaching and learning. The analysis may determine if any could be reclassified down.</p> <p>Impact: The proposed cuts avoided in 2016/17 that would be reinstated could have less level 3 or 4 if they were revised or analyzed, to determine the true impact on student teaching and learning.</p>
One-time vs. ongoing avoided in SY2016/17																														
Impact Level	One-Time	(\$M) Ongoing	Total																											
L1	(0.28)	0.35	0.07																											
L2	-	0.36	0.36																											
L3	-	1.02	1.02																											
L4	-	4.01	4.01																											
Total	(0.28)	5.74	5.46																											
4. Other Budget Proposals																														
<p>Contracting out of underutilized staff.</p> <p>Through discussion with Management of the VBE, it is understood that the VSD does not require the full 101 FTE mandated by the CUPE 407 (i.e. grounds staff) collective agreement for the entire year.</p>	<p>EY has identified a potential opportunity that could result in cost savings but it requires negotiation and coordination with the union CUPE 407, the VBE, and approval by the MEd.</p> <p>Impact: VBE's Management estimates that the number of people that could be utilized is roughly 30 FTE's for half a year (15 FTE for the entire year). This corresponds to a potential annual saving of \$870,000 which would potentially be foregone should negotiations with CUPE 407, the VBE, and/or approval from the MEd fail.</p>	<p>There may be an opportunity for some of the 101 FTE of the union workers under CUPE 407, to be utilized by the Province for other projects. The Province would then provide the VSD with a cost recovery.</p> <p>Impact: Potential annual saving of \$870,000. Refer to the section of this report regarding revenue opportunities and operating cost efficiencies.</p>																												

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Considerations	Risks and Challenges	Opportunities
<p>Investment strategies for excess cash</p> <p>The VBE currently has a large cash balance on deposit with the Province of BC under the Central Deposit Program, the amounts of which has ranged from \$90 to \$100M years in the two school years.</p>	<p>The Province of BC may not allow the VBE to withdraw the cash and invest it in alternative investment vehicles.</p> <p>Impact: This could result in foregone revenue opportunities which would result in a missed opportunity to balance the budget further.</p>	<p>The Central Deposit Program provides the VBE with an annualized return of 1.7%.</p> <p>There exists an opportunity to negotiate with the Province of BC to allow the cash balance to be withdrawn and invested in alternative investment vehicles which would generate a higher return for the VBE than the 1.7% provided.</p> <p>Impact: Potential additional revenue could be generated if the funds were invested in alternative investment vehicles that provide a higher return than the 1.7% currently being earned through the Central Deposit Program.</p>
<p>Revenue opportunities foregone</p> <p>As described in detail in the section of this report regarding revenue opportunities and operating cost efficiencies, there are some opportunities that the VBE has decided to forego.</p> <p>Specifically:</p> <p>Chevron "Fuel Your School" Program</p> <p><u>Pay parking for teachers</u></p> <p><u>Leasing of properties to for-profit daycares</u></p>	<p>The opportunities listed were considered but were ultimately rejected. There are risks associated with these opportunities.</p> <p><u>Chevron and sponsorship</u> Previous attempts by Chevron to sponsor and provide funding to the VBE have been rejected as it was determined that the proposals violated board policy on corporate funding. The VBE has strict policies on sponsorships and marketing, and donations received must not come with the expectation of advertising.</p> <p><u>Pay parking</u> Pay parking for teachers was foregone as initial discussions indicated that due to demand elasticity, parking utilization will decrease dramatically as most areas have access to free residential parking surrounding the area.</p> <p><u>Leasing of properties to for-profit daycares</u> VSD's Management indicates that there was legislation introduced last year (Section 85.1 (3) (b) of the <i>School Act</i>), which limits the amount that can be charged to childcare providers to cost recovery for all forms of child care, preschool and afterschool care. This legislation stipulates that "any revenue obtained from childcare providers is not more than the direct and indirect costs incurred".</p> <p>Impact: The impact of these opportunities cannot be fully quantified at this time, but the revenue which was foregone could have been used to balance the budget.</p>	<p>There exists an opportunity to re-think the revenue opportunities presented.</p> <p><u>Sponsorship and marketing</u> The VBE could identify partnerships and sponsorships with other organizations which better align with its policies and values.</p> <p><u>Pay Parking</u> The current plan is to charge for pay parking for after hours. There exists an opportunity to increase the rates on existing pay parking, and the implementation of pay parking at all school locations.</p> <p>The VBE should conduct additional studies to determine the right pricing for pay parking, and to reconsider pay parking during school hours in order to generate additional revenue. Even with attrition, there exists an opportunity to generate significant income.</p> <p><u>Leasing of properties to for-profit daycares</u> N/A</p> <p>Impact: The impact of these opportunities cannot be fully quantified at this time, but the potential revenue generated could be utilized to balance the budget.</p>

10 VSD Path to sustainability

A path to financial sustainability of the VSD over the longer term, is the primary goal of all stakeholders. There is no doubt that to achieve this desired position, VSD Management, the VBE, MEd and other stakeholders will be required to work in a cohesive manner that will require following a defined path to success. This path will include a number of actionable items that must be vigorously pursued in the coming years.

Below we have defined those principle action items that have been identified in other areas of this report; this is only the beginning, with both creativity and determination being the principle attributes to be embraced in identification of opportunities. It is not acceptable to fail in the development of a sustainable financial path over a longer term as the critical stakeholders, the students, are grading the VBE on their success.

The timeline proposed below illustrates each of the main actionable items recommended to the VBE by EY, together with the actions required by the Trustees, to permit the VSD to implement the initiative and to achieve an A+ rating.

1. Business development team

Flow of Funds: Operating

Section of Report: 3.6.3.4 Summary of revenue opportunities foregone

Implementation Date: SY2016/17 (negative cash flow) and SY2019/20 (return on investment)

Objective: Establishment of a business development team - adverse cash flow associated with the establishment of the business development team in the near term. Longer term critical to mitigate classroom impact through enhanced cash flow associated with strategic alliances and partnerships, e.g. Chevron "Fuel Your School" Program revenue opportunity.

Trustees Action: Relax the policy on commercial sponsorships currently limiting advertising and corporate funding.

2. Investment strategies for excess cash

Flow of Funds: Operating

Section of Report: 3.6.3.5 Investment Strategies for Excess Cash

Implementation Date: SY2016/17

Objective: Achieve a greater financial return on the funds on deposit under the Central Deposit Program with the Province of British Columbia. Available amount of approximately \$94M (associated with long term liabilities and other capital needs) that may be invested for differing investment periods (aligned with usage needs) to achieve greater economic return to the VBE.

Trustees Action: Commence a conversation with the Province to explore permitted investment strategies and legislation framework.

3. Surplus ground staff capacity

Flow of Funds: Operating

Section of Report: 3.6.5.5 Labour Saving Opportunity

Implementation Date: SY2017/18

Objective: Commence discussions with the Province, to enter into a service agreement which may better utilize 30 FTE staff from CUPE 407 for half a year. The VBE has the opportunity to develop service agreements to redeploy underutilized staff with other public sector agencies. The Province would then provide the VSD with a labour cost recovery for the staff deployed under the service agreements. The number of people that could be utilized in this capacity is roughly 30 FTE's for half a year (15 FTE for the entire year) which corresponds to a potential annual saving of \$870,000. The development of the service agreements would require cooperation from the unions at the service receiving organizations and may require some creativity to structure a solution that works for all parties.

Trustees Action: Obtain a resolution to resolve the restrictive provisions in VBE's CUPE 407 collective agreement.

4. Leasing of vacant school properties

Flow of Funds: Operating

Section of Report: 3.7.6.1 Vacant School Properties

Implementation Date: SY2017/18 and beyond

Objective: Engage a qualified real estate professional to assess the 14 properties identified herein as a potential leasing opportunity, this includes those school properties currently closed, pending closure prior to the commencement of the SY2017/18 and those properties identified within the LRFP subject to consideration of closure. EY recognizes that the leasing opportunity will be determined at the end of the swing space hosting responsibilities of each facility. EY estimates that the leasing opportunity could result in up to \$5.2M of lease revenue.

Trustees Action: Relax the policy (dated June 15, 2016), limiting the VBE to lease existing surplus assets to other private education institutions.

5. Sale of surplus school lands

Flow of Funds: Capital

Section of Report: 3.7.6.3 Surplus school lands

Implementation Date: SY2017/18

Objective: 15 properties within the VBE school portfolio could potentially be subdivided and sold. VBE continue its efforts, and accelerate same where possible, to identify surplus lands associated with existing and operating school facilities that may be subdivided for alternative use, resulting in the monetization of value for the VBE and the benefit of an alternative asset for the community.

Trustees Action: No action needed, assuming that the sale of surplus school lands is consistent with current Board policy.

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6. Leasing of non-school assets

Flow of Funds: Operating

Section of Report: 3.7.6.2 Non-School Properties

Implementation Date: SY2017/18

Objective: Lease out Non-School Assets including the Maintenance Workshop and the Grounds Yard to third parties in order to generate recurring revenue which could be utilized in the operational budget.

Trustees Action: No action needed, assuming that the VBE is allowed by the Board policy to lease the properties to third parties who will pay fair market rates.

7. Kingsgate Mall

Flow of Funds: Operating

Section of Report: 3.7.6.4 Kingsgate Mall

Implementation Date: SY2017/18

Objective: Engage with the existing lessee of the Kingsgate Mall to develop an alternative approach to the lands to realize the underlying market value associated therewith, which we estimate at an amount not less than \$120M. Enter into discussions with the MEd to achieve an agreement that could allow the VBE to achieve early crystallization of value and an alternative income stream associated with the Kingsgate Mall.

Trustees Action: Consider and approve a proposal that achieves the objective of sustainable operating cash flow and capital funding consistent with the valuation of the underlying property.

8. First round of schools rationalization

Flow of Funds: Operating

Section of Report: 3.7.5 Proposed School Closures

Implementation Date: SY2017/18

Objective: Closure of the 11 proposed schools by SY2017/18 will result in cumulative cash flow savings estimated at \$82.8M between SY2017/18 and SY2030/31. These savings are incremental to the value derived from the associated properties by way of rental income or otherwise.

Trustees Action: Vote in the affirmative in December 2016 on the school rationalization plan; following public consultation and being satisfied that the Level 1 and Level 2 criteria for school closure are satisfied.

9. Review of collective agreements

Flow of Funds: Operating

Section of Report: 3.6.5.4 VSD Collective Agreements Restrictions

Implementation Date: SY2019/20

Objective: Immediately commence a review of the 14 collective agreements that are constraining the ability of the VBE to realize necessary labour cost savings available to other school districts. In furtherance of this recommendation, we suggest that the VBE engage in a detailed consultative process with the Public Sector Employers' Council (PSEC) and the affected unions to identify opportunities for better service alignment and to consider the alternatives 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. This report has identified potential labour cost savings of between \$12.8M and \$24.7M (depending on the implementation of currently proposed labour rationalization)

Trustees Action: Support the consultative process of VSD Management.

Second Round of Schools Rationalization

Flow of Funds: Operating

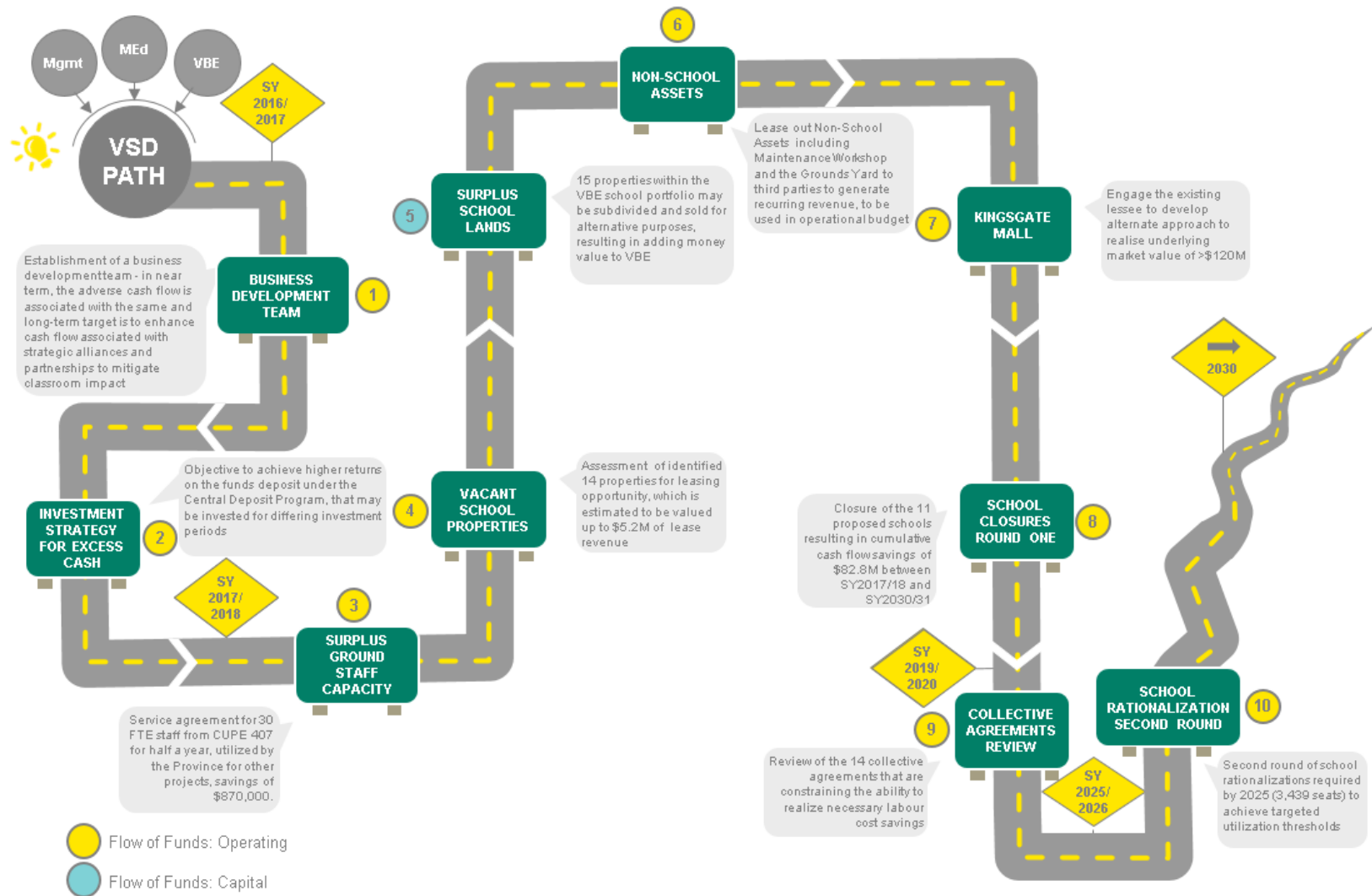
Section of Report: 3.7.4 Capacity Utilization Strategy

Implementation Date: SY2025/26

Objective: It is recognized as part of the LRFP that a second round of school rationalizations will be required by 2025 (3,439 seats) to achieve a higher capacity utilization threshold. In time these schools will be subject to the same leasing revenue opportunity as identified in item (4) above.

Trustees Action: No action needed so far.

The timeline proposed in the following page illustrates each of the main actionable items recommended to the VBE by EY.



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11 Summary of recommendations and high-level action plan

The table below contains recommendations and indicative timeframes to complete implementation of each recommendation. The timeframes are as follows:

- ▶ Short Term (S): up to six 6 months;
- ▶ Medium Term (M): 6 to 18 months; and
- ▶ Long Term (L): 19 months and longer.

Ref	Recommendation	Timeframe
BR1	VBE should continue to implement the prior recommendations of the 2015 Special Advisor where it concurred with the recommendation and that remain to be commenced or are a work in progress.	(S)
BR2	EY wishes to highlight one of the prior recommendations of the Special Advisor in particular; being the recommendation pertaining to the establishment of a business development team. While EY recognizes the financial constraints of the VBE and the efforts made by VSD Management to mitigate the impact on the classroom, and the, likely, adverse cash flow associated with the establishment of the business development team in the near term, EY considers it essential that the VBE accelerate the establishment of the business development team to mitigate longer term classroom impact through enhanced cash flow associated with strategic alliances and partnerships.	(S)
BR3	EY commends the VBE for its efforts in focusing all available cash resources to mitigate the impact on the classroom associated with the current year budgetary constraints, EY recommends that the VBE continue to action the prior recommendations of the Special Advisor that are being considered and will have a long term impact.	(S)
BR4	VBE should reconsider the prior recommendations of the EY 2015 Report to which it did not concur. For instance, the VBE should establish a guidance threshold target for the Accumulated Surpluses; however, consistent with modifications to the recommendation made to the MEd (as outlined in this report), the threshold target should be based on Total (versus net) Operating Accumulated Surpluses. Surplus balances promote flexibility to absorb future year one-time costs, unforeseen expenditures, or reduced revenue due to declining enrolment.	(M)
BR5	EY reiterates the recommendation already included in the EY 2015 Report that the VBE not publish the IPP, which is significantly misleading for the public perception of VBE's financial circumstances. VBE should publish and disclose only the Preliminary Budget and Amended Budget to minimize the confusion about the forecasts, complying with practices of comparable school districts (including Surrey and Central Okanagan).	(S)

Ref	Recommendation	Timeframe
BR6	<p>EY reiterates its recommendation included in the EY 2015 Report that the VBE critically review the documents created in preparation of the budget; specifically when there is no clear use of these documents (e.g. Fiscal Framework and Restoration Budget) and in order to eliminate the documents that are not necessary and useful to stakeholders.</p> <p>However we recognize that certain events will trigger the need to release new documents, such as strikes or additional grant and holdback funding, which events are outside of the VBE's planning and control process and necessary for the stakeholders to gain an enhanced understanding of the budget.</p>	(S)
BR7	VBE should undertake a market sounding respecting international students to determine the elasticity of demand relative to tuition pricing. While we understand the competitive nature of the environment in which the VBE competes for international students, we also recognize the significant demand that exists for placement of international students within the bounds of the VBE. With a current international student population of 1,126 students, each \$1,000 tuition increase represents an additional \$1.126 M in revenue; there is a profit optimization point between international student enrolment and tuition pricing that should be determined by the VBE.	(S)
BR8	VBE should seek the means of to achieve a greater financial return on the funds on deposit under the Central Deposit Program with the Province of British Columbia. We have identified an available amount of approximately \$94M (associated with long term liabilities and other capital needs) that may be invested for differing investment periods (aligned with usage needs) to achieve greater economic return to the VBE.	(S)
BR9	VBE should benchmark its performance on a regular basis against a subset of alternative, but representative, school districts to improve operational performance and cost efficiency and achieve or adopt "best in class" performance and/or identify barriers to be addressed that prevent it from achieving such performance standard.	(S)
BR10	VBE should immediately commence a review of the 14 collective agreements (other school districts in the Province are typically subject to no greater than three collective agreements, and the vast majority have two collective agreements) to which it is subject and that are constraining the ability of the VBE to realize necessary labour cost savings available to other school districts. In furtherance of this recommendation, we suggest that the VBE engage in a detailed consultative process with the Public Sector Employers' Council (PSEC) and the affected unions to identify opportunities for better service alignment and to consider the alternatives 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.	(S)
BR11	VBE should commence discussions with the Province to potentially develop a service agreement which may better utilize 30 FTE staff from CUPE 407 for half a year (based on VBE's Management estimates). Through discussion with	(S)

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Ref	Recommendation	Timeframe
	Management of the VBE, it is understood that they do not require the full 101 FTE mandated by the CUPE 407 (i.e. grounds staff) collective agreement for the entire year.	
BR12	VBE should engage with the MEd to maximize the utility of invested capital associated with the SMP to sustain the economic life of the school facilities. This engagement would include coordination of deferred maintenance undertakings and/or alternative means of achieving an acceptable economic outcome when considering the cost of the SMP and deferred maintenance associated with an individual school facility relative to the schools replacement cost. Please refer to the School Closure Supplemental Report for further discussion.	(M)
BR13	VBE should commit to a systemic asset rationalization approach aimed at capacity rationalization to a target utilization, with an annual review. It is noted that the proposed LRFP rationalization would increase the effective utilization of the VBE to 91.7% immediately thereafter. It is further noted that utilization within the VBE will, likely, continue to erode between today and 2030, arising from the addition of a planned 3,070 seats over the next 15 years and a flat or near flat enrolment projection throughout the forecast period. Absent other alterations to supply and demand, the closure of the 11 schools will cause utilization to improve to approximately 89.3%, therefore a second round of school closures will be required, which is provided for in the LRFP (approximately 3,439 seats to be closed by 2025). Please refer to the School Closure Supplemental Report for further discussion.	(L)
BR14	VBE should seek the means to maximize the value attributable to its asset rationalization program. The maximization approach would include: (i) a strategic review of the real estate assets by a qualified professional having regard to 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. Please refer to the School Closure Supplemental Report for further discussion.	(M)
BR15	VBE should engage 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 following a final determination of the facilities disposition by the Trustees. The timing of the engagement of the real estate professionals must be aligned with the staggered period to which the facilities will become available for alternative use following the facility's hosting responsibility as swing space. Please refer to the School Closure Supplemental Report for further discussion.	(M)
BR16	VBE should review all policies approved by the Board that would limit the ability of the VBE to achieve proceed generation and revenue opportunities associated with the foregoing assets. Specifically, this would include a review of the June 15, 2016 policy limiting the VBE to lease existing surplus assets to other private education institutions. Please refer to the School Closure Supplemental Report for further discussion.	(S)
BR17	VBE should continue its efforts, and accelerate same where possible, to identify	(M)

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Ref	Recommendation	Timeframe
	surplus lands associated with existing and operating school facilities that may be subdivided for alternative use, resulting in the monetization of value for the VBE and the benefit of an alternative asset for the community at large.	
BR18	VBE should engage with the Beedie Group to develop an alternative approach to the lands to realize the underlying market value associated therewith, which we estimate at an amount not less than \$120M.	(S)
BR19	VBE should enter into discussions with the MEd to achieve an agreement that could allow the VBE to achieve early crystallization of value and an alternative income stream associated with the Kingsgate Mall; to assist with rectifying its on-going budgetary constraints.	(S)

Appendices

Appendix A: Documents and materials reviewed

Document	Source organization or author	Date
2015 EY report titled "Report on the Special Advisor's Review of the Vancouver Board of Education (District 39)"	EY	June 2015
Long Range Facilities Plan Project Charter	VBE	March 2015
Report on Schools Considered for Potential Closure	VBE	October 2010
Strategic Report: Potential School Closures	VBE	September 2016
Preliminary List of Schools That Might be Considered for Closure	VBE	June 2016
Interim Long Range Facilities Plan	VBE	January 2016
Final Long Range Facilities Plan	VBE	May 2016
Report on Comparative Staffing Levels 2015	Bob Janzen	March 2015
Report on Comparative Staffing Levels 2016 Update	Bob Janzen	January 2016
Maintenance budget and actual expenditure data 2009-15	VBE	April 2015
Report on Proposed Plan for Temporary Accommodation	VBE	February 2015
Seismic Mitigation Program Progress Reports	MEd	2012-2016
Actual Capacity and Utilization Statistics SY2009/10 to SY2015/16	MEd	March 2016
Projected Capacity and Utilization Statistics SY2014/15 to SY2018/19	MEd	March 2015
Office of the Comptroller General, Special Advisor Report on the Vancouver School Board	Ministry of Finance	June 2010
Overview of Class Size and Composition of SD39 SY 2009-2015	MEd	April 2016
Overview of Class Size and Composition of SD39 SY 2009-2015	MEd	December 2009-2015
Miscellaneous data on FCI and deferred maintenance	VBE	April-May 2016
Miscellaneous data on funding allocation	VBE	April-May 2016
VBE Memo - Vancouver Seismic Mitigation Project Office	VBE	September 2014
Memorandum of Understanding regarding Vancouver Board of Education Seismic Mitigation Project Office	VBE/ MEd	August 2014
Vancouver School Board Resource Allocation Review 2015	PwC LLP	April 2015
Vancouver School Board Resource Allocation Review 2012	PwC LLP	March 2012
Report on the Vancouver School Board	Office of the Comptroller General of British Columbia	June 2010

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Document	Source organization or author	Date
Ministry of Education: Service Delivery Transformation, Shared Services Implementation	Deloitte	July 2014
BC Ministry of Education and School Districts: Service Delivery Transformation Final Report	Deloitte	August 2012
Vancouver School Board Audited Financial Statements SY2011/12 to SY2014/15	VBE	September 2012-2015
Vancouver School Board Unaudited Financial Statements SY2015/16	VBE	August 2016
Vancouver School Board Fiscal Framework for SY2015/16 and SY2016/17	VBE	March 2015 March 2016
Collective Agreement - British Columbia Teachers' Federation ("BCTF")	VBE and BCTF	July 2013
Collective Agreement - Vancouver Elementary School Teachers' Association ("VESTA") Adult Educators' Sublocal	VBE and VESTA Adult Educators' Sublocal	July 2013
Collective Agreement - CUPE15	VBE and CUPE15	July 2014
Collective Agreement - CUPE407	VBE and CUPE407	July 2014
Collective Agreement - IUOE 963	VBE and IUOE963	July 2014
Collective Agreement - Trades Unions	VBE and Bargaining Council of Trade Unions	July 2014
Summary of Collective Agreements	VBE	March 2016
Vancouver School Board Base Budget for SY2014/15 to SY2016/17	VBE	April 2013-2015
Vancouver School Board Preliminary Budget for SY2014/15 to SY2016/17	VBE	December 2013-2015
Vancouver School Board Amended Budget for SY2014/15 to SY2015/16	VBE	February 2013-2016
Various planning documents and maps on VBE website http://www.vsb.bc.ca/vsb-planning-facilities	VBE	August 2016
Various planning documents and maps on MEd website http://www2.gov.bc.ca/gov/topic.page?id=00C5FFBE51C44325A845819C007A01E7	MEd	August 2016
BC Ministry of Finance Capital Asset Management Framework	BC Ministry of Finance	May 2002
Summary of Budget Related Meeting Hours and Calendar provided by the Secretary-Treasurer	Secretary-Treasurer and the VBE	September 2016
Potential second round of school closures for 2025 from the Secretary-Treasurer	Secretary-Treasurer and the VBE	September 2016
VBE Official Response to EY 2015 Recommendations	VBE	November 2015
VBE Updated Responses and Progress regarding EY 2015 Recommendations	VBE	September 2016
MEd Response and Progress regarding EY 2015 Recommendations	MEd	September 2016

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Document	Source organization or author	Date
Email from the Director of Finance of the VSD regarding legislation (Section 85.1 (3) (b) of the <i>School Act</i>), limiting amounts charged to childcare providers.	VBE	September 2016
VBE Board Resolutions for SY2015/16 to SY2016/17	VBE	July 2015 - September 2016
Original Kingsgate Mall Lease	Royal Oak Holdings and VBE	November 1972
Assignment of Ground Lease and ROF to Beedie Group for Kingsgate Mall	Royal Oak Holdings, VBE, Beedie Group	December 2005

Appendix B: Interviews completed

Interviewee	Title
Vancouver School District Resources	
Scott Robinson	Superintendent of Schools
Russell Horswill	Secretary-Treasurer
Lisa Landry	Director of Finance
Ishver Khunguray	Supervisor of Budget & Forecasting
Helen Yee	Supervisor of Accounting & Treasury
David Nelson	Project Director
Ministry of Education	
Ian Aaron	Director, School District Financial Reporting Branch
Shanna Mason	Assistant Deputy Minister, Planning and Major Projects

Appendix C: Foregone school closure savings

The table below is a summary of the foregone savings as a result of not proceeding with the proposed school closures in 2010. A total of 11 schools were considered for closure in 2010, of which: 5 schools advanced to public consultation, and 6 additional schools did not make it to that stage as they failed to satisfy the level 1 criteria. The cost savings calculated are associated with the 5 schools that advanced to public consultation, accumulated over the 6 years between 2011 and 2016.

Foregone school closure savings							
School Name	Office & Admin	Teaching	Operations & Energy	Maintenance & Construct.	Annual Cost Mothball	Annual Savings in 2016	Included in 2016 Closure?
Five schools that advanced to public consultation for possible closure:							
Carleton Elementary	236,710	-	227,646	77,046	(52,892)	488,510	Yes
Champlain Heights Annex	82,231	-	82,547	28,169	(22,748)	171,199	Yes
Macdonald Elementary	224,548	-	141,991	66,489	(44,971)	388,057	No
McBride Annex	83,231	99,704	76,352	26,335	(21,367)	264,254	Yes
Queen Alexandra Elementary	236,278	199,407	159,671	71,649	(47,860)	619,145	Yes
Subtotal						1,931,164	
Six schools that were removed from the list of potential closure							
Bruce elementary	171,103	199,407	157,072	70,106	(46,253)	Failed	
Collingwood School	114,625	-	92,767	33,739	(26,361)	Failed	
Dickens Annex	114,625	-	72,578	24,053	(20,245)	Failed	
Hudson Elementary	236,710	-	170,941	79,111	(51,517)	Failed	
Kerrisdale Annex	109,953	-	179,381	24,942	(20,443)	Failed	
Seymour Elementary	224,548	-	192,546	62,069	(41,696)	Failed	
Subtotal						-	
Total Savings per Year (5 schools)						1,931,164	
# of years (from 2011 to 2016)						6	
Total savings (cumulative)						11,586,983	

Level 1 factors considered (applied to all schools)

- ▶ If the school was closed, can students in that catchment be accommodated in another local catchment school;
- ▶ Out-of-catchment students enrolled in school, can they be accommodated in their home school or in local catchment school; and

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- ▶ Projected future student enrolment of the adjusted catchment area(s), as the result of a closure can be accommodated.

Level 2 factors considered (applied to schools that meet Level 1 criteria)

- ▶ Geographic considerations (catchment size analysis, walk distances and routes, location of the school within the community in relation to other schools);
- ▶ Seismic risk of the building;
- ▶ School Site considerations including proximity to major roadways, play space, ability to use the building for temporary accommodation, ability to use the space for alternative functions;
- ▶ High deferred maintenance costs and high facility operating costs;
- ▶ Services and supports in place for vulnerable students, families, and communities; and
- ▶ Education and social impacts of school closure on students and families, particularly in communities with high concentrations of vulnerable students and families.

Appendix D: Summary of 2015 EY recommendations

The table below is a summary of all the 46 recommendations, summarizing the VBE's responses updated as at September 2016. The recommendations where the VBE did not concur are highlighted in grey.

Recommendations				
Ref	Section 3: Budget Development and Forecasting	Decision	VBE Response (Updated as at September 14, 2016)	EY Considerations
3.1	VBE not publicly release the IPP. Disclose only Preliminary Budgets and Amended Budgets to minimize confusion about forecasts	VBE Consider / Long-Term	The VBE is currently reviewing the practices of comparable school districts to determine if a more suitable process can be implemented. The rationale behind releasing the IPP is for transparency of information and accountability to the public. Furthermore, the Strategic Plan that is published by the VBE utilizes a 3 year projection, which requires the release of the IPP to serve as the starting point.	EY reiterates the recommendation that the VBE should not publish the IPP to minimize the confusion about the forecasts.
3.2	VBE critically review the seven documents created in preparing the budget, limiting the information published to that which is useful to stakeholders	VBE Do Not Concur / Long-Term	The VBE tries to limit the number of iterations and versions of documents published to the public. However, sometimes information and funding arrive outside of their control and these unexpected announcements result in revisions to documents. Without the ability to predict when these things will arrive, multiple revisions of the same document are often inevitable.	EY reiterates the recommendation already included in the EY 2015 Report that the VBE not publish the IPP, which is significantly misleading for the public perception of VBE's financial circumstances. VBE should publish and disclose only the Preliminary Budget and Amended Budget to minimize the confusion about the forecasts, complying with practices of comparable school districts (including Surrey and Central Okanagan).
3.3	VBE include a three-year financial forecast in the Strategic Plan in order to better develop operating priorities. VBE to obtain the proper tools to do efficient long-term planning, such as an integrated forecast model	VBE Concur / Long-Term	The VBE is in the process of developing a detailed and integrated long term financial planning model that will be used for future strategic planning and budgeting processes.	On July 2016 VBE issued a draft Strategic Plan for the next five years from SY2017/18 to SY2020/21. At the time of the writing of this report, the Strategic Plan outlines only the objectives and actions for the next five years and does not include a financial forecast model. The VBE is currently preparing a 3 year financial forecast model as recommended for the Strategic Plan.

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3.5	The Board prepare a three-year financial forecast to allow for long-term decision making and the assessment of various options to maintain a balanced budget in keeping with VBE's strategic priorities	VBE Concur / Long-Term	In connection with recommendation 3.3, the VBE is in the process of developing a detailed and integrated long term financial planning model that will be used for future strategic planning and budgeting processes. The VBE is preparing a 3 year financial forecast as recommended for the Strategic Plan.	See recommendation 3.3
Ref	Section 4: Accumulated Surpluses and Deficits	Decision	VBE Response (Updated as at September 14, 2016)	EY Considerations
4.1	The Board critically review the Amended Budget prior to approval to ensure accuracy of the forecasting, and particularly to account for the deferment of expenses to the next school year prior to the finalization of the Amended Budget	VBE Concur / Long-Term	The VBE has changed their policy in regards to the treatment of expenditures to better ensure accuracy of forecasting. The previous practice was to account for funds received in the year for a multi-year project as fully spent during the year. The revised practice starting from SY2015/16 is that the funds being spent in the year will be shown as spent, but the funds earmarked for future years will be included as appropriated surplus. The net result is that the amended budget better reflects the actual results.	N/A
4.2	The Board estimate the in-year Internally Appropriated Expenses not expected to be spent prior to approving the Amended Budget to reduce the difference between the budget and actual operations, consistent with treatment by the Surrey School District	VBE Concur / Immediate	The VBE concurred to exclude from the Amended Budget expenditures known to be deferred and report the resulting unspent funds as restricted surplus in the Amended Budget. This recommendation is in-line with 4.1, and the change in policy has been made. The net result is that the amended budget better reflects the actual results.	N/A
4.3	The Board establishes a guidance threshold target for Net Accumulated Surpluses. EY is of the view that a threshold target for Net Accumulated Surpluses of 2% to 3% of VBE operating expenses would be reasonable	VBE Do Not Concur / Immediate	The VBE disagrees with this recommendation and will not impose an arbitrary threshold target for the Net Accumulated Surplus. However, the district will continue to carefully monitor the level and composition of any Net Accumulated Surplus, and does not expect there to be a significant balance given that the majority of the surplus has been used to balance the 2016/17 budget.	Overall, EY reiterates the recommendation that the Vancouver School Board should establish a guidance threshold target for Accumulated Surpluses; however, EY amends its recommendation that the guidance threshold should be based on the Total Accumulated Operating Surplus, not net. EY notes that when the previous EY report was released, the Net Accumulated Surplus (in SY2013/14) amounted to \$18.2m or 3.7%. After SY2013/14 VBE Accumulated Surplus has

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				gradually reduced and for SY2016/17 the accumulated surplus is projected to be close to \$nil (i.e. \$1.1m).
Ref	Section 5: Administrative, Support and Overhead Efficiencies	Decision	VBE Response (Updated as at September 14, 2016)	EY Considerations
5.2	<p>VBE explore increasing Summer School Enrolment:</p> <ul style="list-style-type: none"> Offering specialized interest courses Marketing to students in districts without Summer School programs 	VBE Concur / Immediate	<p>The VBE has completed this recommendation and expanded their summer school program offering for 2016. The financial impact is an estimated \$500,000 of additional revenue.</p> <p>Specifically, the estimated \$500,000 of additional revenue has been included as part of the base budget assumptions and not as part of the proposals to balance the \$21.8M budget deficit.</p>	N/A
5.3	VBE continue to explore options to market underutilized schools in the East-side to international students	VBE Concur / Immediate	<p>The VBE is continuing to investigate and implement opportunities for international students to be encouraged to choose East-side Vancouver schools.</p> <p>The VBE has been able to identify an increase of 100 students in total for the SY2016/17, for a net financial gain of \$700,000 (i.e. Proposal E5 in the VBE's Revised Preliminary Budget Proposals Report dated June 9, 2016). The gain is net of the costs required to source international students, and expenses related to teaching, supplies and counselling.</p> <p>Current work related to the SMP may adversely impact international student enrolment as it will reduce available school capacity.</p> <p>Furthermore, in west side schools where typically international students prefer to go, the schools are nearing or above full capacity. As the VBE will not refuse local citizens in favor of international enrolment, with the addition of 100 students, the recommendation will be saturated and VBE does not expect to be able to increase this further.</p>	N/A
5.4	VBE assess the results of the Ministry-led pilot project that aims to explore the provision Distributed Learning to	VBE Consider / Long-Term	The VBE is in the process of reviewing the pilot project, and is considering expanding distributed learning opportunities to international students. The MEd is in the process of issuing a Request for Proposals	EY notes that the progress on this recommendation is limited until the MEd proceeds with the Request for Proposals.

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	international students. If the MEd were to change the policy to allow provision of Distributed Learning to international students as a result of the pilot project, VBE to consider marketing Distributed Learning courses to incoming international students as preparation or a head start for attending schools in the VSD		to the school districts, and a review will be completed at the end of the SY2016/17. The VBE treats this recommendation as a long term project and a nominal amount of revenue has been generated thus far (\$24,000), which has been reflected in the base budget assumptions.	
5.5	VBE explore taking advantage of recent implementation of PeopleSoft by providing shared services and/or host systems for HR and Payroll for other districts	VBE Consider / Long-Term	<p>The VBE anticipates that once the new PeopleSoft system is fully operational, they could consider working with the MEd, the Public Service Agency and TELUS Sourcing Solutions to explore options to expand the PeopleSoft HR/Payroll System to other districts, and evaluate the benefits to the VBE.</p> <p>Although the system has been operational for the past 18 months, there have been many changes and developments to the program. The PeopleSoft system is expected to be finalized by the end of September 2016, at which point a full team will be required to maintain and operate the system.</p> <p>The VBE has done an analysis of the Calgary Board of Education, as they have the same system, and estimates that they will require \$850,000 annually to hire 11 highly skilled employees (mainly business analysts). After that has been stabilized, the VBE will begin to perform studies to determine if a shared service initiative will be beneficial.</p>	N/A
5.6	<p>VBE explore increasing the Miscellaneous Revenues through:</p> <ul style="list-style-type: none"> • Constituting of a business development team • Sale of necessities and providing ATMs on school property • Providing more fee-based programs and licensing of intellectual property 	VBE Consider / Long-Term	<p>The previous cost of the business development lead was \$116,170 per annum (until the start of the SY2016/17).</p> <p>The VBE has contemplated the cost and benefits of establishing a new business development team, and concluded that at this point in time, establishing one would not be feasible.</p> <p>Preliminary discussions at VBE have shown that the benefits would be more long-term in nature as it requires significant time and financial investment to materialize viable solutions. Since the short-term focus is on balancing the</p>	EY recognizes that that the first two years of the business development team will be spent on generating leads and relationships and will be cash negative, however additional revenues are likely to be achieved after the first two years.

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			<p>immediate budget shortfall, this recommendation has been postponed.</p> <p>The VBE has not identified any additional miscellaneous revenue sources.</p>	
5.7	<p>VBE explore increasing rental and lease revenues through:</p> <ul style="list-style-type: none"> • Creating lease space for commercial use or rental to compatible tenants • Implementing tiered facility rental rates • Rental of rooftops for solar energy, agriculture and/or telecommunications purposes <p>Other school districts could consider this opportunity to increase rental and lease revenues</p>	VBE Consider / Immediate	<p>The VBE is in the process of reviewing the market value of certain school properties (i.e. Maquinna, Laurier, and Henderson Annexes), as well as non-school sites (i.e. Kingsgate Mall).</p> <p>The VBE has quantified a possible increase in rental income of \$650,000, which is their aggregate estimate of all possible rental increases in current school properties (Proposal A1 in the budget proposals to balance the \$21.8M deficit). This is lower than their initial estimate of \$1M and the decrease is to be conservative as they have not been able to rent out Maquinna Annex (which has already been closed) at the time of this report.</p> <p>The lease criteria focuses on short-term rentals of school properties (i.e. 3 to 5 years), to provide the VBE with flexibility should they require the school spaces for other purposes in the future.</p>	<p>EY prepared a detailed analysis of the lease value of each of the VBE surplus assets (i.e. non-school property, vacant school property, surplus school land and Kingsgate Mall) in the section of this report pertaining to the LRFP.</p> <p>Overall, EY notes that the short time period of the VBE rentals results in a downward pressure on potential lease revenue, as most tenants prefer a longer lease term so that they can amortize the cost of moving over a longer period of time.</p> <p>Furthermore, the VBE made an amendment to the leasing criteria on June 15, 2016, resolving that leasing of school space be restricted away from independent schools, which would be the most ideal tenants and could best utilize the space.</p> <p>In the LRFP section of this report, EY has explored the possibility of VBE entering into a head lease agreement with the MEd. This solution would generate significant revenues every year.</p>
5.8	<p>In the next round of collective bargaining, VBE to give consideration to reason for the variation identified in student / support staff ratios between VBE and a subset of peer districts, as set out in the Comparative Staffing Levels Report</p>	VBE Consider / Long-Term	<p>The VBE represented that it will continue to use staffing ratio analysis to help identify possible opportunities for future operating efficiencies.</p> <p>The VBE has analyzed the considerations for the variances identified in student / staff ratios between the VBE and the subset districts and has identified that these discrepancies are mainly due to the language of some of the 14 collective agreements.</p> <p>The VBE is specifically aware of language within the following collective bargaining agreements that require revisiting:</p> <ol style="list-style-type: none"> 1) CUPE 407 - This collective bargaining agreement has a minimum of 101 FTE 	<p>EY has analyzed these issues in more detail in the section of this report pertaining to the Revenue and Cost Opportunities.</p> <p>In this section EY has explored the potential benefits if the Vancouver School District could operate at the same staffing ratio as its subset peer group. EY has also considered the possibility that some of the facilities support staff of the VBE could be better utilized if a service agreement was entered into with the Province.</p>

			<p>staffing, which may be above and beyond what is required given falling enrolment, and the possibility of school closures.</p> <p>2) CUPE 15 - 382 employees as of October 3, 2014, which have guaranteed pay levels, status, and benefits which are grand-parented as part of the agreement.</p> <p>3) IUOE 963 - Square footage language in the determination of staffing, which gives no consideration to the occupancy of a particular school.</p> <p>VBE has spent considerable time in analyzing the agreements and have identified and implemented opportunities to contract out or reduce the head count of certain employee groups where permitted by the agreements.</p> <p>The collective agreements were renegotiated most recently in 2013 and 2014 and they will not be up for renewal until 2019.</p> <p>The VBE will continue to work with the Public Sector Employers Council, and together with the support of the Ministry of Education, will try and reduce the burden associated with some of the salaries and headcount in the next round of collective bargaining</p>	
5.9	VBE continue progressing on the cost efficiencies as recommended in historical reports and management proposals, while continuing to explore opportunities to participate in future provincial shared service offerings	VBE Concur / Immediate	<p>The VBE is active in many shared services committees and have taken advantage of the opportunities that are available.</p> <p>Procurement, fleet insurance, labor legal litigation pool, energy, and custodial supplies are some of the examples of shared service offerings that have been started.</p> <p>VBE estimates that there is a small immediate impact of \$40,000 in savings for fleet insurance which has been reflected in the base budget assumptions. Savings for other shared service offerings are still being quantified and are underway.</p>	N/A
Ref	Section 6: Capital Asset Management - Planning	Decision	VBE Response (Updated as at September 14, 2016)	EY Considerations
6.1	VBE develop tactical tools to support the planning process, including those that support more efficient access to	VBE Concur / Long-Term	As a result of this recommendation, the VBE established the Coordination Planning Committee, whose mandate is to consider all matters pertaining to facility planning.	N/A

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	centrally held data which inform key planning decisions		The VBE utilizes Baragar System information to analyze enrolment projections and data, broken down by geographical regions, in order to better forecast where potential growth and decline areas will be. This allows them to make better informed decisions in analyzing the opening and closure of schools.	
6.3	<p>VBE must complete the district-wide LRFP and new Five Year Capital Plan as soon as possible.</p> <p>VBE to consider extending the LRFP beyond its current 10 year scope in order to better inform long term decision making.</p> <p>Provinces such as Alberta and Ontario use a 10 year period as a basis for long range facilities planning, other districts in the Province (i.e. Surrey School Board) set plans based on enrolment projections that exceed 10 years. Given the size of VBE's capital asset portfolio, which is comparable to Surrey, adoption of a 20 year planning horizon that incorporates a rolling 10 year plan within would better inform long-term decision making</p>	VBE Concur / Immediate	<p>An interim Long Range Facilities Plan ("LRFP") was approved by the VBE and submitted to the Ministry of Education in January 2016. Consultation was undertaken resulting in a final LRFP, which was approved by the VBE at the May 2016 Board Meeting and submitted to the Ministry of Education.</p> <p>Planning for the Seismic Mitigation Program ("SMP") and school organization has been completed to 2030 as recommended, which will allow the VBE to make better informed long-term decisions.</p>	N/A
6.4	The Project Definition Report Strategy and Work Plan need to be closely monitored. VBE (and Vancouver Project Office ("VPO"), where applicable) should track and report actual results against the target timeline in the Project Definition Report ("PDR") Strategy and Work Plan. This will enable VBE to assess if a further overhaul of its project	VBE Concur / Immediate	<p>The Ministry of Education and the VBE have revised the processes to monitor and approve the SMP and planning decisions through the establishment of the VPO Decision Forum. The Assistant Deputy from the MEd and the Secretary Treasurer from the VBE co-chair this committee. Frequent VPO Decision Forum meetings occur with a primary goal to monitor PDR progress. Major non-SMP projects utilize the PDR process.</p> <p>The VPO Decision Forum has reworked the financial reporting and cost accounting process, and has resulted in a more streamlined process.</p>	N/A

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	<p>planning and development strategy is required.</p> <p>VBE to use the PDR Strategy and Work Plan approach on all of its capital projects including non-seismic upgrades and renovations.</p>			
6.5	VBE assess the benefits of alternative capital project delivery models and commit to the model that maximizes use of funds and gets best values for money	VBE Concur / Long-Term	The Secretary Treasurer is working with each department leader to understand whether alternative capital project delivery models can be utilized. This is a long-term strategy and is an ongoing process without quantifiable benefits at the moment.	N/A
6.6	VBE adopt a template school design standard (where appropriate) that is scalable to capacity needs; thereby, limiting out-of-scope work and change orders. In addition, template construction allows for greatest cost certainty and more timely construction	VBE Do Not Concur / Long-Term	<p>The VBE does not concur with this recommendation as their view is that a standard template does not work in British Columbia, which differs from provinces like Alberta where soil, topography, and layout is consistent and a standard template model is usable.</p> <p>In BC, the geography is not conducive to a standardized template. Furthermore, most of the capital expenses in BC relate to the reinforcement, or upgrading of existing buildings as opposed to building brand new schools. Each school is not the same and requires customization.</p> <p>The VBE has partially implemented this recommendation by developing their own standard form construction manual and template. The immediate benefit of this is hard to quantify, but the VBE will continue to evaluate opportunities where a standardized template may be utilized, and sees this as a long-term strategy.</p>	<p>EY recognizes that the VBE is different than other districts and provinces and that the VBE has partially implemented the recommendation where suitable.</p> <p>However, there are still aspects of the schools design which can easily be standardized such as the facade of the building, the classroom configurations and its footprint.</p> <p>We recommend the VBE continue to further enhance and design standards that are scalable to capacity needs.</p>
6.7	VBE establish proactive and clear communication with the City of Vancouver to clearly understand planning requirements	VBE Concur / Long-Term	Ongoing meetings with the City of Vancouver have occurred and are scheduled. Meetings occur on a quarterly basis and relationships between the City of Vancouver and the VBE is strengthening and benefitting the planning process.	N/A
6.10	In conjunction with Recommendation 6.5, VBE should change its procurement approach to align with common BC practice and industry best practice, by either:	VBE Do Not Concur / Long-Term	The VBE does not concur with this recommendation, and reiterates that their current process is in full compliance with all government requirements. Specifically, they are referencing the Capital Asset Management Framework January 2016	<p>EY recognizes that the VBE is aligned to the Capital Asset Management Framework published by the Ministry of Finance in January 2016.</p> <p>However EY notes that the VBE uses a list of preferred bidders</p>

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	<ul style="list-style-type: none"> moving to the open market tendering approach followed by the Surrey School Board and most other school districts in the Province, or building into their pre-qualified bidders agreements more quality and value for money drivers 		<p>Recommended Best Practice for Pre-Qualification for Selection of General Contractors and Professional Consulting Services published by the Ministry of Finance.</p> <p>The VBE's view is that the prequalification process allows for higher quality bids, and better capital projects.</p> <p>The VBE will continue to monitor and identify opportunities where better value can be realized.</p>	<p>during procurement instead of open market tendering and this is unusual compared to other school districts in the Province and may not result in the most competitive submissions being received. VBE should ensure that there are quality and value for money drivers instilled in the pre-qualified contractor agreements.</p> <p>VBE is concerned that following an open market approach will increase the risk that the selected contractor(s) will be unable to deliver the same quality and timeliness of its preferred suppliers. Although this position has merit, VBE could mitigate this risk by requiring some form of surety from its selected contractors.</p>
6.11	VBE, where appropriate, procure services and delivery partners for multiple projects at a single time in order to gain economies of scale, consistency in quality and efficiencies in procurement and delivery costs and efforts	VBE Concur / Long-Term	<p>VBE represented that discussions with the MEd have been initiated regarding building material procurement for multiple projects.</p> <p>Plans for increasing this discussion to all procurement opportunities are being contemplated.</p> <p>This recommendation is seen as a long-term strategy that the MEd and the various school districts will be working on where available.</p>	N/A
Ref	Section 6: Capital Asset Management - Excess Surplus Capacity	Decision	VBE Response (Updated as at September 14, 2016)	EY Considerations
6.13	VBE to conduct a thorough review of the current annual net cost savings related to a reduction in excess surplus capacity to support decisions on capacity rationalization. The review should include a study of the relationship of the physical space to the incremental cost of education and include scenario modeling	VBE Concur / Long-Term	<p>The VBE has performed extensive studies to analyze the potential savings associated with school closure.</p> <p>The Coordination Planning Committee has reviewed potential school closures and has determined the potential cost savings.</p> <p>The preliminary list of 12 proposed school closures has been released by the VBE in June 2016, with public consultation to occur after September 2016. One school was subsequently removed bringing the total to 11.</p> <p>The costs savings analyzed takes into consideration multiple factors, and includes scenarios where schools to be</p>	EY has analyzed in detail the annual net cost savings related to a reduction in excess surplus capacity in the section of this report pertaining to the LRFP.

			closed will be utilized as swing space to accommodate other schools which require seismic mitigation and maintenance work.	
6.14	VBE immediately engage a real estate professional to conduct a market study and prepare a valuation of its priority K-12 lands, and K12 capacity rationalized lands (where anticipated), to assist in a scenario planning process, within a six month timeline	VBE Consider / Both Immediate and Long- Term	<p>The VBE has engaged several well-known real estate professionals to undertake market studies for many of their properties.</p> <p>The purpose of the studies was to identify potential lease revenue, and the estimated market value on some of their lands.</p> <p>For some properties, such as certain portions of school grounds that could be used to generate capital and additional revenue, the VBE is still expecting the studies.</p>	See EY Considerations in connection with Recommendation 5.7
6.15	<p>When assessing capacity rationalization, in addition to cost savings and the non-financial impact, VBE should include assessment criteria to evaluate the opportunities for the generation of proceeds from the retired or repurposed capital assets.</p> <p>As a component of this capacity rationalization assessment, VBE must address future capacity requirements of the District based on long term enrolment expectations, and such must be a defined element and variable of the LRFP. VBE should use scenario planning to assist it in its capital planning and to optimize its portfolio (i.e. sale and relocation)</p>	VBE Concur / Immediate	<p>The VBE is identifying opportunities for the generation of revenue from existing surplus properties. This could include leases of space for community use (such as childcare), the sale or lease of portions of school properties and the sale or lease of portions or entire non-school properties.</p> <p>The VBE approved LRFP includes enrolment projections, which take into consideration future capacity requirements of the district, specifically in areas of high growth and high density housing.</p>	N/A
6.16	VBE continue to explore opportunities with the City of Vancouver to generate additional revenue on its capital assets	VBE Concur / Long-Term	<p>The VBE is having ongoing discussions with the City of Vancouver. In particular, there are discussions pertaining to the operating and capital costs associated with Britannia Secondary School and the attached City of Vancouver facilities.</p> <p>Although not an additional source of revenue, a revised cost sharing</p>	N/A

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			agreement is being negotiated with the City of Vancouver, which may potentially result in cost savings. The savings are not quantifiable yet at the moment, and this recommendation is seen as a long-term process.	
6.17	VBE continue to assess the education impacts and benefits as part of any capacity rationalization, school consolidation or school closure business case	VBE Concur / Long-Term	The VBE has incorporated education impacts as part of the LRFP, and specifically, as part of the school closure criteria.	N/A
6.18	VBE commit to considering capacity rationalization in its Strategic Plan, Capital Plan and Long Range Strategic Facilities Plan. VBE update its Guiding Principles to reflect its utilization target.	VBE Consider / Long-Term	The VBE has incorporated the target of reaching full capacity utilization as part of the LRFP and Strategic Plan.	N/A
6.19	Board provides guidance to District Management Team on criteria for inclusion of schools on the Preliminary List. This criteria should include school performance, student engagement measures, current and projected utilization, incremental operating costs per student, facility condition and seismic risk	VBE Consider / Long-Term	The VBE has established the defined criteria for the determination of the preliminary list of schools closures. All of the recommended criteria such as utilization, costs, facility condition, seismic risk, schools programs and performance, have been built into the filters and models. The preliminary list has been published in June 2016 with further consultation to begin after September 2016.	N/A
6.20	VBE should undertake the school closure process simultaneously for multiple schools identified in the Preliminary List	VBE Do Not Concur / Long-Term	<p>The VBE does not concur with this recommendation, as school closures are complex and may have different timings. The preliminary list of the 12 proposed school closures has been published in connection with the LRFP. One school was subsequently removed bringing the total to 11.</p> <p>The LRFP analyzes the utilization of a closed school as swing space, and the timing of when each school may be utilized depends on the seismic mitigation and deferred maintenance schedules of those respective schools.</p>	EY recognizes that school closures are complex and challenging. However, EY reiterates the importance of achieving an accelerated time frame with regards to the school closures in order to reach costs savings and to address the growing excess surplus capacity in the District.
6.21	VBE consider changes to its school closure protocol to increase	VBE Consider /	The VBE has revised the school closure policy for schools that do not have registered students in attendance (i.e.	EY recognizes that VBE's school closure protocol and regulations meet the Ministry's

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	timeliness of decision making and realization of the financial and non-financial benefits available through capacity rationalization	Immediate	Maquinna, Laurier, and Henderson Annexes). No change is being contemplated by the VBE for regular school closures as the view of the board is that the public deserves the due process, which is currently a 60 day wait period between the preliminary announcement, and further consultation.	requirements; however, this rigorous school closure process appears very long, typically from one to two years. This timeline should be studied to determine if there is a possibility to be accelerated, without compromising the very important stakeholder consultation process. EY recognizes that school closures are a very sensitive matter that must follow an appropriate due process.
6.22	VBE include analysis of sale, lease and retention options in its assessment of capacity rationalization	VBE Consider / Both Immediate and Long-Term	The VBE is developing a comprehensive list of non-educational properties (or segments of sites) that could be sold, leased or repurposed. This recommendation is in progress and the target is to develop a Master Facilities Plan by early March 2017, which will outline all development proposals, including Kingsgate Mall and potential subdivision of sale of other properties.	N/A
6.23	VBE and the Ministry to agree on the availability of proceeds and impact on future funding in advance of a decision to undertake capacity rationalization	VBEConcur / Long-Term	Discussions are ongoing between the VBE and the MEd on the potential application of funds from land disposal to augment the SMP. A draft MEd policy on use of capital asset disposal proceeds has been provided to VBE; however, a final version has not been received.	N/A
6.24	VBE undertake an assessment of capacity in school lands to understand options for generating additional future on-site capacity (e.g. new buildings at existing school, additional levels to existing buildings)	VBEConcur / Immediate	The LRFP consultation concluded and finalized in May 2016. The Coordination Planning Committee is examining strategies to optimize all school sites, which may include school closures or additions to existing buildings.	N/A
Ref	Section 6: Capital Asset Management - Seismic Mitigation	Decision	VBE Response (Updated as at September 14, 2016)	EY Considerations
6.25	VBE prepare scenario analysis models to assess the variance impacts on available capacity during the SMP. Holistic analysis needs to be undertaken based on the results including both costs savings and proceeds	VBEConcur / Long-Term	The VBE has considered this recommendation in the creation of the LRFP. The cost and savings generated from school closures takes into consideration the effect of utilizing the proposed schools as swing space while other schools are undergoing seismic mitigation work. The Baragar System software provides information on student	N/A

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	that can be generated from school closure that becomes available with the provision of temporary accommodation.VBE should track the trend of student movement from non-upgraded schools to new seismically upgraded schools to determine whether a correlation exists between enrolment and facility upgrades. This will help support future decisions around closures and replacement over upgrade.		demographic and trend data that allow for statistical analysis of enrolment trends related to improved school building condition. Those schools in "enrolment management" are already closely monitored to understand trends.	
6.27	VBE assess opportunities to avoid SMP projects in its capacity rationalization criteria	VBEConcur / Long-Term	The LRFP and school closure process takes into consideration the ability to avoid SMP costs on the schools proposed to be closed.	N/A
6.28	VBE track the impact of right-sizing under the SMP to assist it in identifying further opportunities and also to support future decisions weighing replacement against seismic upgrade. VBE should also undertake a cost benefit analysis when assessing the appropriateness of replacement over seismic upgrade	VBEConcur / Long-Term	The VBE is tracking the impact of right-sizing under the SMP to assist it in identifying further opportunities.The VBE is considering the disposal of non-educational sites to supplement SMP projects. The purpose would be to increase the number of replacement schools achieved through augmenting the SMP in order to reduce building deferred maintenance, or to support heritage building preservation.	N/A
Ref	Section 6: Capital Asset Management - Deferred Maintenance	Decision	VBE Response (Updated as at September 14, 2016)	EY Considerations
6.29	In conjunction with Recommendation 6.1 and 6.3, VBE develop a robust, maintenance plan based on least cost over life cycle, to assist it in identifying and addressing facility priorities	VBEConcur / Long-Term	The VBE as part of its LRFP has incorporated building operations and maintenance life cycle considerations. They recognize that having a longer term perspective (i.e. life cycle of a building), as opposed to focusing on the short term may bring about different decisions. A project could have a bigger up front cost but be more cost effective if averaged out over a longer time horizon.The VBE and the Ministry are beginning discussions to incorporate life cycle costing as opposed to just the lowest cost option.	N/A

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6.30	VBE track annual maintenance on a school-by-school basis to support business cases for capacity rationalization	VBEConcur / Immediate	The VBE has already implemented this recommendation and are tracking annual maintenance costs on a school by school basis to support business cases for capacity rationalization. This is considered a process improvement and has no immediate quantifiable cost savings.	N/A
6.31	VBE undertake a study on the relationship of physical space to the incremental cost of education to support business decisions to reduce surplus capacity	VBEConcur / Long-Term	The VBE has already considered this in their LRFP, and has calculated the potential savings of operational costs that could be realized should a school be closed down.	N/A
6.32	Facilities management is a non-core service and we agree with PwC's recommendation that VBE should evaluate the benefits of implementing a mobile maintenance workforce and extend this to assessing the benefits and opportunities for alternative service delivery models in the medium to long term.	VBEConcur / Long-Term	The VBE views this as a longer term proposal that may require a significant investment to purchase equipment and technology. They are continuing discussions with building operations and maintenance staff but given the immediate budgetary concerns, further progress on this recommendation has been postponed.	EY has analyzed this issue in more detail in the section of this report pertaining to the Revenue and Cost Opportunities. In this section EY has explored the potential benefits of the possibility that some of the facilities support staff of the VBE could be better utilized if a service agreement was entered into with the Province.
6.33	Other school districts, including Central Okanagan and Surrey, have used school closure to address the growing gap between maintenance funding and maintenance needs. VBE should factor the deferred maintenance obligations of its schools when identifying and deciding schools for closure and/or upgrade. VBE should develop a cost-benefit metric to assess the value of retaining or upgrading its schools. For example, it could use a deferred maintenance cost per student as part of the criteria for deciding whether the costs of	VBEConcur / Long-Term	The VBE has incorporated deferred maintenance, and the seismic mitigation plan when considering school closures. The cost avoidance that can be realized is built into the model, as well as other factors such as the availability of the surrounding schools in the area to accommodate the students that will be displaced.	N/A

	<p>providing education in a facility outweigh the benefits of that location. This analysis needs to be district-wide and not focused on a school-by-school basis. A district-wide approach may provide opportunities to reduce two or three adjacent schools with one new, Right-sized replacement (which will have no deferred maintenance).VBE take a holistic approach in determining whether it is more cost effective to upgrade, replace or close a school.Addressing deferred maintenance at the same time as supported seismic upgrades should be carefully considered given the likely cost savings that are achievable when delivering both capital projects concurrently. Further, there are likely to be financial and student benefits to limiting the disruption of the student population during these concurrent projects</p>			
Ref	Section 6: Capital Asset Management - K-12 Real Estate	Decision	VBE/MEd Response (Updated as at September 14, 2016)	EY Considerations
6.34	VBE relocate the Vinery and close Downtown East Adult Education Centre as planned	VBEConcur / Long-Term	This recommendation has been completed. Savings due to the consolidation of Adult Education Centre has resulted in \$60,000 reduction in costs, which have been incorporated in the base budget.	N/A
6.35	VBE immediately engage a real estate professional to conduct a market study and prepare a valuation of its priority non-core lands to better inform decisions on its	VBEConsider / Immediate	Consultants have been engaged to perform the market studies on various non-core lands. A master facilities plan will be presented in early March 2017, outlining all the potential possibilities being considered by the VBE to generate additional revenue.	See EY Considerations in connection with Recommendation 5.7

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	revenue options, within a six month timeline			
6.36	VBE incorporate non-core/non-K12 real estate in its LRFP	VBEConcur / Long-Term	The LRFP has been completed and incorporates the consideration of non-core, non-K-12 real estate properties.	N/A

Appendix E: Labour cost comparison between the VBE and the subset districts

A reduction in excess surplus capacity in the District's schools and classrooms could result in significant cost savings. The Janzen report, commissioned by the VBE in 2015, identified that in comparison to its peers, Vancouver was significantly overstaffed in many of its employee categories. Table 1 (reported below) explores the potential benefits if the Vancouver School District could operate at the same staffing ratio as its subset peer group. The staffing ratios have been adjusted where applicable, by the changes in staffing encompassed by the preliminary budget proposals to balance the \$21.8M deficit in 2016/17 as well as the proposed 11 school closures.

Table 1A speaks to the potential savings in aggregate for all staffing categories. If Vancouver School District were able to reduce staff levels to the levels of its peers, the net annual cost savings on salaries could be approximately \$24.7M before reduction of FTEs or \$12.8M after reduction of FTE (both Budget Proposals and School Closures).

Table 1B details further the ratios of facilities support staff specifically (included in the "Support Staff and Excluded" category). The focus on the facilities support staff is to quantify the inefficiencies caused by the excess space that Vancouver School District has relative to the subset, and the inefficiencies caused by the wording from the Collective Agreements, as well as specific decisions made by the district locally. Local decisions are made at the discretion of the district

Labour Cost Comparison between the VBE and the Subset Districts													
Table 1A - Total Student / Staff Ratios Summary Table													
	Union	Vancouver Current FTE	Vancouver Ratios	Subset Districts Ratios	FTE Under / (Over) Subset	FTE changes due to Budget Proposals (Increase) / Decrease	Adjusted FTE after Budget Proposals	FTE changes due to School Closure (Increase) / Decrease	Adjusted FTE after Budget and School Closures	Average Salary	Pre-Adjusted Annual Cost Savings	Post Budget Proposals Annual Cost Savings	Post-Budget Proposals and School Closures Annual Cost Savings
Teachers	VTF/VESTA	2,935	16.9	17.6	(112)	47	(65)	11	(54)	93,430	\$10,461,502	\$ 6,099,256	\$ 5,035,088
Educational Assistants	CUPE 15	879	56.5	55.1	23	9	32	-	32	50,300	\$ -	\$ -	\$ -
Principals / Vice Principals	None	194	256.7	262.2	(4)	2	(2)	7	5	137,655	\$ 553,198	\$ 277,888	\$ -
Support Staff and Excluded	Various	1,168	42.6	53.4	(236)	41	(195)	62	(133)	58,000	\$13,712,803	\$11,336,543	\$ 7,734,163
Total District Staffing		5,176			(329)	99	(231)	81	(150)		\$24,727,504	\$17,713,687	\$ 12,769,252
Table 1B - Student / Facilities Support Staff Ratios													
	Union	Vancouver Current FTE	Vancouver Ratios	Subset Districts Ratios	FTE Under / (Over) Subset	FTE changes due to Budget Proposals (Increase) / Decrease	Adjusted FTE after Budget Proposals	FTE changes due to School Closure (Increase) / Decrease	Adjusted FTE after Budget and School Closures	Average Salary	Pre-Adjusted Annual Cost Savings	Pre-Adjusted Annual Cost Savings	Post Budget Proposals and School Closures Annual Cost Savings
Building Operations	IUOE 963	413	19,144.3	22,057.6	(85)	3	(82)	48	(34)	58,000	\$ 4,944,051	\$ 4,781,651	\$ 1,991,271
Building Maintenance	Trade Unions	113	69,935.2	72,932.8	(26)	-	(26)	-	(26)	58,000	\$ 1,495,264	\$ 1,495,264	\$ 1,495,264
Grounds	CUPE 407	67	3.5	6.2	(7)	-	(7)	-	(7)	58,000	\$ 431,630	\$ 431,630	\$ 431,630
Subtotal - Excess Square Footage		593			(118)	3	(116)	48	(68)		\$ 6,870,944	\$ 6,708,544	\$ 3,918,164
Building Operations	IUOE 963	413	120.3	181.9	(55)	-	(55)	-	(55)	58,000	\$ 3,164,944	\$ 3,164,944	\$ 3,164,944
Building Maintenance	Trade Unions	113	439.5	601.3	(5)	15	10	-	10	58,000	\$ 269,615	\$ -	\$ -
Grounds	CUPE 407	67	741.2	1,628.6	(29)	-	(29)	-	(29)	58,000	\$ 1,688,052	\$ 1,688,052	\$ 1,688,052
Subtotal - Collective Agreement and Local		593			(88)	15	(73)	-	(73)		\$ 5,122,611	\$ 4,852,996	\$ 4,852,996
Total - Facilities Support Staff		593			(207)	18	(189)	48	(141)		\$11,993,555	\$11,561,540	\$ 8,771,160
Other Support Staff and Excluded		575			(30)	23	(6)	14	8	58,000	\$ 1,719,249	\$ (224,997)	\$ (1,036,997)
Grand Total - Other Support Staff and Excluded		1,168			(236)	41	(195)	62	(133)	58,000	\$13,712,803	\$11,336,543	\$ 7,734,163

(1) Source: VSB Budget 2016/2017 Workshop Document dated March 29, 2016, based on Janzen report updated on January 2016.

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Appendix F: Collective agreements summary

Collective Agreement	Initial Date - Expiry Date	Description	Significant Provisions
CUPE 15	July 2014 - June 2019	<p>The positions within this bargaining unit are organized into four main broad categories, including:</p> <ul style="list-style-type: none"> ▶ Office support ▶ School and student support, Information technology support, and ▶ Technical and resource support 	<p>The VBE is prepared to guarantee the employment of permanent employees (including probationary employees) employed prior to 1999 May 14 for the term of this Collective Agreement. These employees are specifically 382 employees, as of October 3, 2014. The pay level, status (FTE) and benefits of these 382 employees will be maintained (grand-parented) for the term of the collective agreement.</p> <p>Employees with guaranteed employment displaced as a result of position reductions within a band will be appointed as permanent substitutes until a suitable position within the band is available. Permanent employees will retain their regular salary and benefits while employed as permanent substitutes. Permanent Substitutes will remain on the bi-weekly payroll and will not be required to complete timesheets.</p>
CUPE 407	July 2014 - June 2019	<p>The positions within this bargaining unit include a large number of outside workers, which include labourers, fence persons, drivers, gardeners, mechanics, blind and drapery repairpersons, tar and gravel roofer's assistant, back hoe operators, tractor operators, floor layers, and pesticide control operators.</p> <p>Staff in this group are assigned to projects based on their qualifications and training. However, much of the work these employees do is very specific to a particular area. As a result, it can be challenging to reassign jobs between the employees.</p>	<p>The Collective Agreement requires a minimum staffing level of 101 FTE but does not specify a quota for each area of specialty. The union is currently operating at the 101 FTE level of staffing. Employees can be transferred from one category to another provided they are qualified; the rate of pay cannot be reduced but can be increased.</p>

Collective Agreement	Initial Date - Expiry Date	Description	Significant Provisions
IUOE 963	July 2014 - June 2019	<p>The positions within this bargaining unit are organized into four main groups including: maintenance engineers, building engineers & custodial staff, food service and cafeteria workers, and, supervision aides.</p> <p>Within the Building Engineer category of employees, the following groups exist: building engineers, assistant building engineers (level 1, 2, and 3), head custodians, custodians, and steady part time custodians.</p>	<p>Building Engineer groups (with the exception of Building Engineer 2 position) are staffed to square footage as outlined in the CA. Attempts to improve this CA language to provide the employer more flexibility have been attempted in past rounds of CA bargaining. There has also been an attempt to consolidate some of the engineering positions as some of the facilities no longer require the same certification. Attempts to renegotiate this language have not been successful.</p>
Bargaining Council of Vancouver School Board Construction and Maintenance Trade Unions, representing nine separate unions.	July 2014 - June 2019	<p>The Bargaining Council of Vancouver Board Construction and Maintenance Trade Unions represents nine separate unions as follows:</p> <ol style="list-style-type: none"> 1. Bricklayers 2. Carpenters 3. Cement Masons 4. Electrical Workers 5. Heat & Frost Insulators 6. Machinists 7. Painters 8. Plumbers 9. Sheet Metal Workers <p>The nine trade unions are a poly party that bargain collectively as the Bargaining Council of Vancouver School Board Construction and Maintenance Trade Unions.</p> <p>Collectively this council negotiates the terms and conditions of employment on</p>	N/A

Collective Agreement	Initial Date - Expiry Date	Description	Significant Provisions
		<p>behalf of its members including wage increases. In addition, there are nine trade specific appendices that outline specific wages and core lists for each of the trades. These are bargained individually with each trade.</p> <p>All of the nine trades unions are organized in the following way:</p> <p><u>a) Core List Employees:</u> This refers to those employees who are permanent to the VBE. There are no minimum numbers as defined in the collective agreement. If the work that is available exceeds the staff on the core list, then the district will call employees from the specific union hall who work as casual employees.</p> <p><u>b) Casual Employees:</u> These employees are needed for projects when the core list is not sufficient. The district does not have an obligation to these employees on any long term basis.</p>	
BC Teachers' Federation / Vancouver Teachers' Federation	July 2013 - June 2019	The British Columbia Teachers' Federation (BCTF) is the union of professionals representing 41,000 public school teachers in the province of British Columbia. All public school teachers belong to the BCTF and their local teachers' association.	N/A
Vancouver Teachers' Federation	July 2013 - June 2019	This group represents the adult educator employees working for the Vancouver School Board.	N/A

Appendix G: Breakdown of cuts avoided in SY2016/17

The table below is a detailed breakdown of the cuts that were avoided in SY2016/17, which were initially proposed but removed due to additional funding that was announced by the MEd. The VBE has stated that these cuts were the ones chosen to be removed as they felt such had the most significant impacts on student learning and teaching, and needed to be avoided if at all possible. The possible reinstatement of these cuts in SY2017/18 due to the forecasted shortfall could have a significant impact on classrooms.

Cuts avoided in 2016/17 budget	Description	\$	FTE
Level 1			
N/A None			
Level 2			
5 Parking at schools	Pay-parking at school rates	(0.10)	-
9 Annex/Main School Configuration	Additional amalgamations of school annex classes into main school sites	(0.18)	(2.00)
12.4 Gifted Teacher Mentor	Elimination of Gifted Teacher Mentor position	(0.07)	(0.80)
Level 3			
13 School based office support	Additional reduction of staff in school offices	(0.49)	(12.40)
12.7 Athletic Coordinator	Elimination of this position	(0.09)	(1.00)
12.8 Fine & Performance Arts Coordinator	Elimination of this position	(0.09)	(1.00)
12.14 Multicultural liaison workers	Additional reductions of these positions	(0.06)	(1.00)
12.17 District-based gifted staffing	Removal of Mentorship/Seminar Programs and Educational Psychologist position	(0.30)	(3.00)
12.18 Career information assistants	Additional reductions of these positions	(0.07)	(1.00)
Level 4			
12.22 SACY SSW	Reduction of youth engagement workers in School Age Children and Youth - Substance Use Prevention Initiative (SACY)	(0.07)	(1.00)
13 School Based Vice Principals	Reduction of vice-principals from schools where the position is not essential	(0.28)	(1.54)
15 Secondary Teacher Staffing	Reduction of staffing at the secondary school level, still keeping non-exempt classes at or below the class size of 30	(1.61)	(18.14)
17 Enhanced Services Literacy Teachers	Reduction of enhanced services literacy teachers, whose goal is to provide support to inner city schools	(0.83)	(9.00)
18 Special Ed. Support Entitlements	Reduction of Special Education support	(0.64)	(12.00)
19 Elementary non-enrolling staffing	Reduction of non-enrolling staff, whose goal is to provide additional support for students in special education, aboriginal groups, etc.	(0.59)	(6.36)
Total		\$(5.46)	(70.25)

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Appendix H: Investment return summary

The Central Deposit program was started in Q1 of 2013, and the balance was steadily increased at the request of the Province. For the past two years, the amount has fluctuated between \$90 and \$100M. The Central Deposit program currently provides a return of 1.7% per annum. EY has outlined three possible alternatives and the average annual returns to quantify the potential earnings.

Investment return summary

Average Savings Amount⁽¹⁾ \$ 93,564,802

If Invested With				Invested With		
	RBC - PH&N ⁽²⁾	Interest		Central Deposit Program Returns		Difference in returns
1 year (average)	Money Market	0.35%	\$ 327,477	1.70%	\$ 1,590,601.63	(1,263,125)
	Fixed Income (low)	1.80%	\$ 1,684,166	1.70%	\$ 1,590,601.63	\$ 93,565
	Fixed Income (high)	9.60%	\$ 8,982,221	1.70%	\$ 1,590,601.63	\$ 7,391,619
5 year (average)	Money Market	0.57%	\$ 533,319	1.70%	\$ 1,590,601.63	(1,057,282)
	Fixed Income (low)	2.30%	\$ 2,151,990	1.70%	\$ 1,590,601.63	\$ 561,389
	Fixed Income (high)	4.00%	\$ 3,742,592	1.70%	\$ 1,590,601.63	\$ 2,151,990
10 year (average)	Money Market	1.29%	\$ 1,206,986	1.70%	\$ 1,590,601.63	(383,616)
	Fixed Income (low)	3.40%	\$ 3,181,203	1.70%	\$ 1,590,601.63	\$ 1,590,602
	Fixed Income (high)	5.00%	\$ 4,678,240	1.70%	\$ 1,590,601.63	\$ 3,087,638
BCIMC ⁽³⁾						
		Interest				
10 year (average)	Pension Returns	6.60%	\$ 6,175,277	1.70%	\$ 1,590,601.63	\$ 4,584,675
15 year (average)	Pension Returns	7.90%	\$ 7,391,619	1.70%	\$ 1,590,601.63	\$ 5,801,018
20 year (average)	Pension Returns	7.80%	\$ 7,298,055	1.70%	\$ 1,590,601.63	\$ 5,707,453
Government of Canada						
		Interest				
5 year (average)	Bonds	0.75%	\$ 701,736	1.70%	\$ 1,590,601.63	(888,866)
10 year (average)	Bonds	1.50%	\$ 1,403,472	1.70%	\$ 1,590,601.63	(187,130)
30 year (average)	Bonds	3.50%	\$ 3,274,768	1.70%	\$ 1,590,601.63	\$ 1,684,166

Notes:

(1) Average Savings Amount is the average balance with the Central Deposit Program from Q1 2015 to Q4 2016.

(2) Source: RBC - PH&N Funds Summary Report August 31, 2016 - Did not consider equity returns because of risk profile

(3) Source: BCIMC Financial Report as at March 31, 2016 - Annualized Pension Returns for the period ended March 31, 2016, pension returns based on balanced fund portfolio. .

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Appendix I: Vacant school properties by year

The table below is a representation of the annual rent that may be generated by entering into a lease agreement with third party educational institutions or others on market terms, including the MEd on a head lease basis.

Vacant School Properties by Year																
Property	Annual Rent In 000's	of which:	School Years													
			2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Closed School Annex																
Laurier Annex	\$ 200		\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200
Subtotal - Closed	\$ 200		\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200	\$ 200
Pending Closure School Annexes																
Henderson Annex	\$ 175		\$ 175	\$ 175	\$ 175	\$ 175	\$ 175	\$ 175	\$ 175	\$ 175	\$ 175	\$ 175	\$ 175	\$ 175	\$ 175	\$ 175
Maquinna Annex	\$ 125		\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125	\$ 125
Subtotal - Pending	\$ 300		\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300	\$ 300
Vacant School Annexes (A)	\$ 500		\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500
11 Proposed School Closures																
Champlain Heights Annex	\$ 197		\$ 197	\$ 197	\$ 197	\$ 197	\$ 197	\$ 197	\$ 197	\$ 197	\$ 197	\$ 197	\$ 197	\$ 197	\$ 197	\$ 197
Queen Elizabeth Annex	\$ 162		\$ 162	\$ 162	\$ 162	\$ 162	\$ 162	\$ 162	\$ 162	\$ 162	\$ 162	\$ 162	\$ 162	\$ 162	\$ 162	\$ 162
Tecumseh Annex	\$ 183		\$ 183	\$ 183	\$ 183	\$ 183	\$ 183	\$ 183	\$ 183	\$ 183	\$ 183	\$ 183	\$ 183	\$ 183	\$ 183	\$ 183
Bruce Elementary	\$ 393		\$ 393	\$ 393	\$ 393	\$ 393	\$ 393	\$ 393	\$ 393	\$ 393	\$ 393	\$ 393	\$ 393	\$ 393	\$ 393	\$ 393
McBride Annex	\$ 184		\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184	\$ 184
Subtotal - Not Committed as Swing Space (B)	\$ 1,119		\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119
Seymour Elementary	\$ 348		\$ -	\$ 348	\$ 348	\$ 348	\$ 348	\$ 348	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Gladstone Secondary	\$ 1,723		\$ 1,723	\$ 1,723	\$ 1,723	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,723	\$ 1,723
Queen Alexandra Elementary	\$ 402		\$ 402	\$ 402	\$ 402	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 402
Carleton Elementary (*)	\$ 432		\$ -	\$ -	\$ 432	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 432	\$ 432	\$ 432
Lord Elementary	\$ 384		\$ 384	\$ 384	\$ 384	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 384
Trudeau Elementary	\$ 315		\$ 315	\$ 315	\$ 315	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 315	\$ 315	\$ 315
Subtotal - Committed as Swing Space (C)	\$ 3,604		\$ 2,824	\$ 3,172	\$ 3,604	\$ 348	\$ 348	\$ 348	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 747	\$ 2,470	\$ 3,256
11 Proposed School Closures (D = B + C)	\$ 4,723		\$ 3,943	\$ 4,291	\$ 4,723	\$ 1,467	\$ 1,467	\$ 1,467	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,119	\$ 1,866	\$ 3,589	\$ 4,375
Grand Total (A+D)	\$ 5,223		\$ 4,443	\$ 4,791	\$ 5,223	\$ 1,967	\$ 1,967	\$ 1,967	\$ 1,619	\$ 1,619	\$ 1,619	\$ 1,619	\$ 1,619	\$ 2,366	\$ 4,089	\$ 4,875

Notes:

The schools are being used to host other schools which are under Deferred Maintenance or Seismic Mitigation Plan projects.

Seymour Elementary school has been proposed to be closed only from SY2018/19.

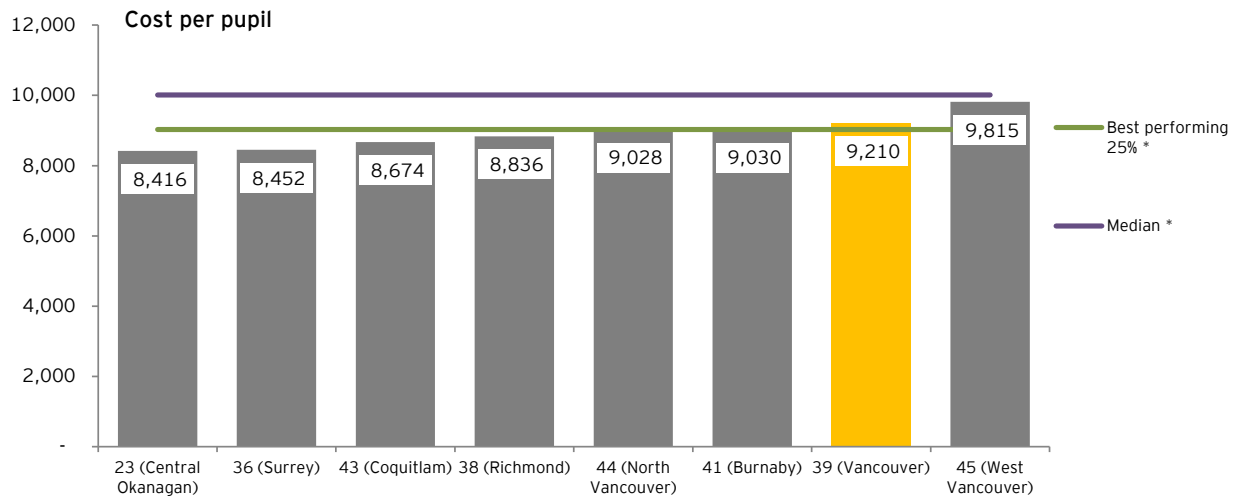
(*)

Carleton Elementary burned down in 2016, however we are assuming that this school is available for swing space from SY2017/18.

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Appendix J: Additional cost benchmarking total operating expenses

The following chart compares VBE's cost per pupil in terms of total operating expenses to its peer districts. SY2014/15 Benchmarking



Note: * Lowest performing, median, and best performing figures based on all school districts in the Province, not just the peer districts

\$M	181.8	576.5	266.7	181.5	137.6	210.7	473.2	66.0
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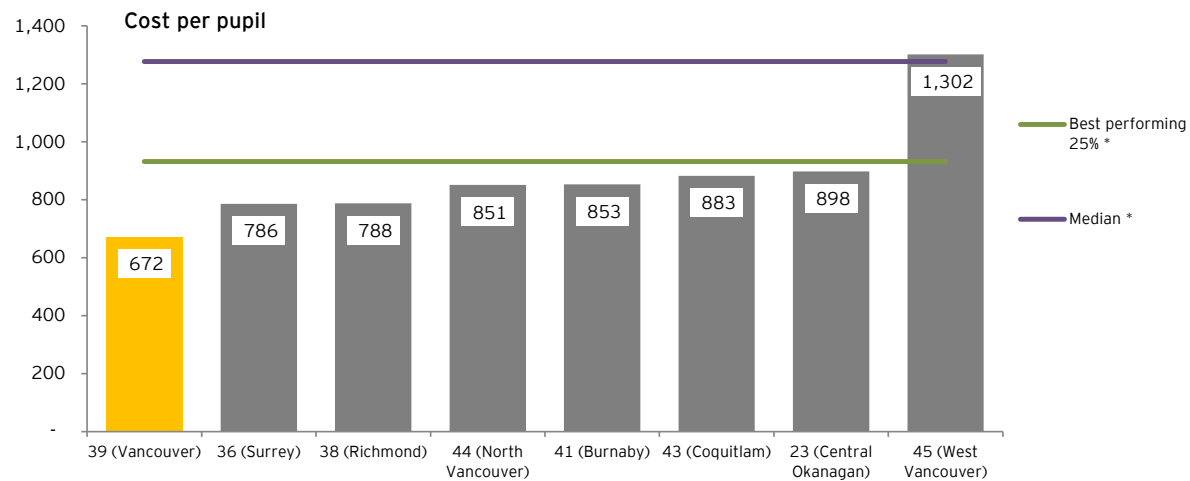
Source: MEd provided financial information and data

When total operating cost per pupil is considered, VBE spends more than all its Subset Districts, with the exception of West Vancouver. However, compared to all districts in the province, VBE spends less than 65% of school districts in B.C. VSD's cost per pupil increased 8.1% (\$693) to \$9,210 in SY2014/15 from \$8,517 the prior year, as its relative position amongst its peers deteriorated one spot.

Vancouver ranks second largest amongst its peer group in terms of total operating expenses (\$473.2M, after Surrey with \$576.5M in operating expenses, but well ahead of third highest Coquitlam with \$266.7M in operating expenses). Despite what would at first seem like a scale advantage, Vancouver has the second highest cost per pupil relative to its peer group.

Services and supplies

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



Note: * Lowest performing, median, and best performing figures based on all school districts in the Province, not just the peer districts

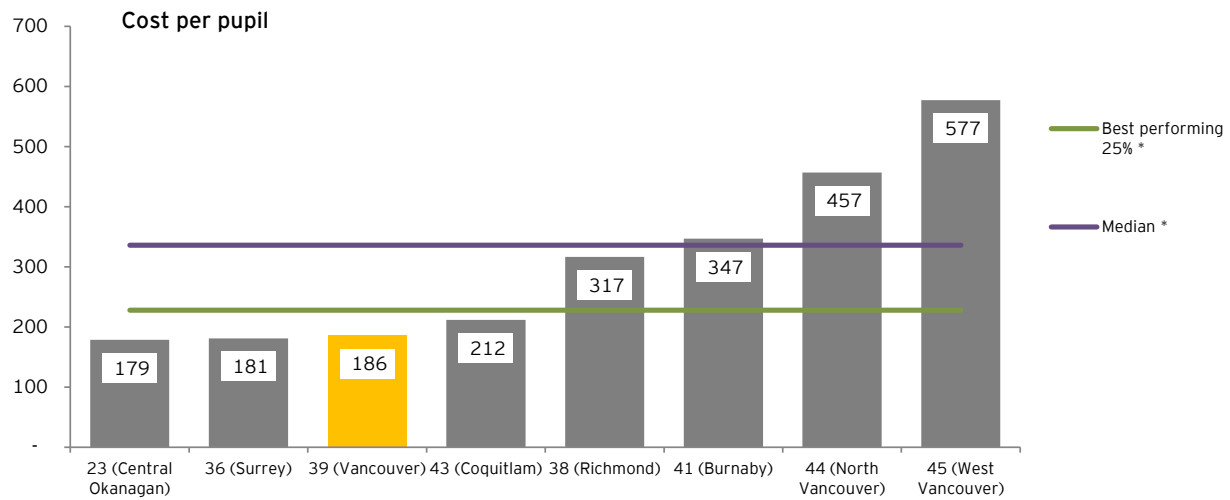
\$M	34.5	53.6	16.2	13.0	19.9	27.2	19.4	8.8
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Source: MEd provided financial information and data

When total services and supplies are considered, VBE has the lowest cost per pupil in comparison to its Subset Districts, spending \$672 per pupil and is among the top quartile performers in the Province.

Services only

The following chart compares VBE's cost per pupil to other peer districts for operating expenses from services (a sub-category of services and supplies expected to make up 27% of total services and



supplies in the 2016/17 proposed budget).

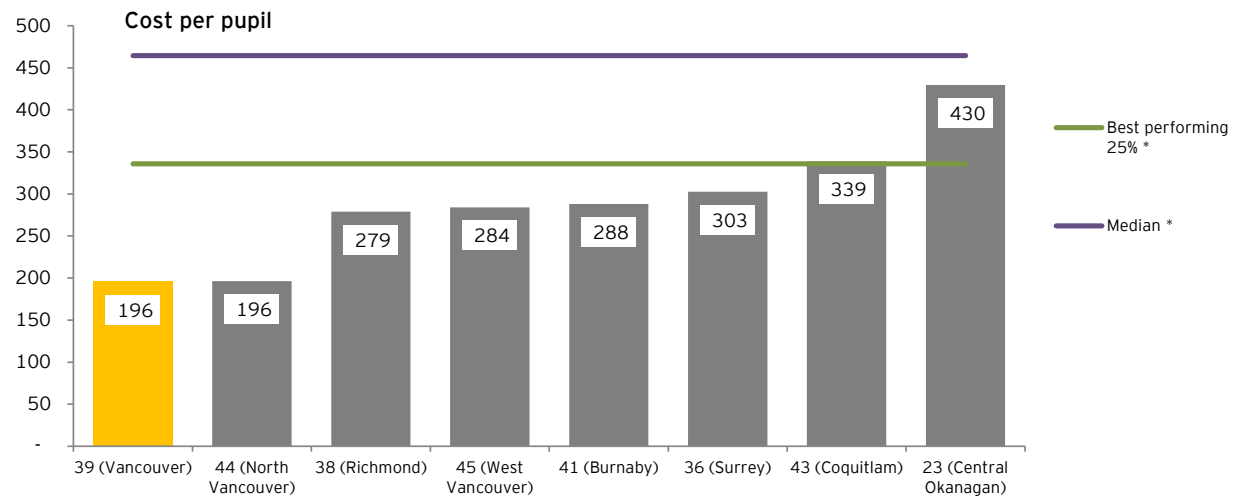
\$M	3.9	12.4	9.6	6.5	6.5	8.1	7.0	3.9
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Source: MEd provided financial information and data

When services are considered, VBE has the third lowest cost per pupil in comparison to its Subset Districts, spending \$186 per pupil, only \$5 to \$7 per pupil higher than top performing Central Okanagan and Surrey school districts. Vancouver is among the top quartile performers in the Province.

Supplies only

The following chart compares VBE's cost per pupil to other peer districts for operating expenses from supplies (a sub-category of services and supplies expected to make up 26% of total services and supplies in the 2016/17 proposed budget).



Note: * Lowest performing, median, and best performing figures based on all school districts in the Province, not just the peer districts

\$M	10.0	3.0	5.7	1.9	6.7	20.6	10.4	9.3
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Source: MEd provided financial information and data

When services are considered, VBE has the lowest cost per pupil in comparison to its Subset Districts, spending \$196 per pupil and is among the top quartile performers in the Province.

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