

NANAIMO LADYSMITH PUBLIC SCHOOLS

**BOARD OF EDUCATION
PUBLIC MEETING**

INFORMATION SHEET

DATE: September 1, 2021
TO: Board of Education
FROM: Secretary-Treasurer, Mark Wash
SUBJECT: Policy 2.16 and AP 524 – Operating Surplus/Deficit

Background

This memo is intended to outline changes to Administrative Procedure – 524 - Operating Surplus and Deficit (the “AP”).

Currently, AP 524 requires regular review. The changes in the AP have been made to ensure compliance with Board Policy 2.16, Ministry of Education reporting requirements and the District’s recent experience in administering the AP as previously drafted.

Discussion

Ministry of Education – Financial Planning and Reporting Policy and the K-12 Public Education Accumulated Operating Surplus Policy

The Independent Panel of the K-12 Provincial Education Funding Model Review made 22 recommendations to improve accountability, financial management and equity in the K-12 education sector. Government accepted the recommendations and launched Phase 1 of the implementation plan in February 2020. At that time, following the directives laid out in the implementation plan, our District created an Operating Surplus/Deficit Policy and related Administrative Procedure which was accepted by the Board of Education.

On May 28, 2021, as a continuation of the Phase 1 implementation plan, the Ministry announced its new Financial Management Policies – the K-12 Public Education Financial Planning and Reporting Policy and the K-12 Public Education Accumulated Operating Surplus Policy (the “Ministry Policy”).

In reviewing the AP, the Ministry Policy did not appear to require changes to ensure District compliance. Further, while the Board Policy Committee will also likely review Policy 2.16 for compliance, it appears that the Policy is also compliant.

It is important to note the Ministry has indicated that it will be issuing a guidance document that may require additional changes. The timing of the release of the guidance document is unknown at this time.

Board Policy 2.16

The changes to the AP bring it into greater alignment with Board Policy. Specifically, the Policy references three “envelopes” of surplus: 1) Unrestricted Operating Surplus 2) Restricted Operating Surplus (Earmarked); and 3) Restricted Operating Surplus (General). The AP has been adjusted to reduce the surplus envelopes in the AP from 6 to 3 to align with the Policy.

However, when the Board does review the Policy, staff recommends that the surplus envelopes are relabeled to avoid confusion (e.g. Restricted Operating Surplus (Earmarked) v. Restricted Operating Surplus. In reality, Restricted Operating Surplus (earmarked) is created from resources that are already assigned to anticipated expenses (e.g. unfinished purchase orders) whereas the Restricted Operating Surplus (unearmarked) is typically associated with a staffing contingency. This contingency is typically carried over from year to year and only utilized in unforeseen circumstances to provide stability to the system.

In addition, there are a number of minor inconsistencies between the AP and the Policy associated with how terms are referenced. For instance, the Policy refers to the Operating Budget and the AP refers to Operating Expense. Staff is recommending that when the Policy Committee reviews Policy 2.16 that it aligns the use of terms.

District Experience

The main changes to the AP are directly connected to recent District experience and are intended to align the AP and the Policy more closely. They are as follows:

1. A purpose statement has been added. The intention of the addition is to add to the transparency of the AP. A surplus is a prudent financial planning tool recognized by the Ministry of Education and is a message to our District and community that the District is striving to provide predictable and stable funding.
2. A reduction in areas of surplus from 6 to 3, eliminating the Planning Reserve, Emergency/Project Reserve and the Emergency Capital Asset Replacement Reserve.

As noted, this now aligns more closely with the Policy. For instance, the Staffing/Unusual Expense Reserve is equivalent to the Restricted Operating Surplus (unearmarked) in Policy. The Targeted Constraints Reserve is equivalent to the Restricted Operating Surplus (Earmarked) in Policy. The Unrestricted Operating Surplus remain unchanged and is aligned with Policy.

The experience, since the inception of the AP, is that some of the specific “envelopes” of reserve did not actually see funds set aside for the purposes noted. Each year, the Board considers its needs from the unrestricted operating surplus (if available) and decides how the funds are to be used and then the funds are applied to the appropriate department budget and/or transferred to local capital. Given this reality, the additional envelopes are unnecessary.

Finally, in the event that we did fund each individual “envelope” there is a risk that the Ministry may review unspent and unallocated balances and seek capital contributions, despite the Ministry Policy allowing for contingency balances.

3. An increase to the minimum and maximum percentages in the Staffing/Unusual Expenses Contingency Reserve. The percentages in the previous AP are not ideal as a minimum of 0.5% is not sufficient to create an adequate contingency and a maximum of 1.0% limits the contingency to less than what is typically set aside each year. We note this is particularly the case in a COVID year. In fact, as the Board will recall in September 2020, the District was not compliant with the AP as previously drafted. The change also aligns with Policy 2.16.
4. The remaining sections have been consolidated and simplified to provide more clarity and reduce the level of detail in the processes regarding maintaining the reserves at the recommended levels.

Appendix A: Proposed revised AP524 Operating Surplus and Deficit

Appendix B: Current AP524 Operating Surplus and Deficit

Appendix C: Policy 2.16

