



# BCTF Research Report

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## Too much of a good thing:

### Accumulated surpluses at British Columbia's school districts

#### Can there be too much of a good thing?

**T**hat's a question British Columbians should be asking of their school districts every year at budget time when annual operating budget surpluses are set and the size of the accumulated operating surplus is decided. School districts can accumulate operating surpluses from year to year because they are very limited in their ability to raise revenues independently. Accumulating surpluses thus allows them to build up financial cushions. A cushion is useful to make up for unexpected shortfalls in provincial funding, whether due to drops in enrollment or inadequate funding for the services districts provide. However, these financial cushions can also grow unnecessarily large (as measured relative to a district's annual spending), stripping money from classrooms and further entrenching austerity budgeting, the understanding that schools will have to make do with too little.

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## Operating surplus basics

The annual operating surplus is the difference between what a district receives in funding for operations—everything they need to run existing schools—and what it spends on operations. The accumulated operating surplus is the running total of annual operating surpluses over the years. This differs from other accumulated surpluses in capital accounts that fund spending on long-term assets such as new schools. This report will focus only on accumulated operating surpluses and refer to them as “accumulated surpluses”.

School districts are legally mandated to submit a balanced budget every year and so having an accumulated surplus is the default financial position for districts. Districts are in the difficult position of being responsible for providing services without control over how they are funded—something decided by the province. When there is a shortfall between the year’s funding and spending, this “deficit” can be covered with funds from the accumulated surplus. If the accumulated surplus is not enough to cover a shortage, the Minister of Education has to personally approve a district budget with an accumulated deficit and the school board submitting such a budget has to both explain how the unplanned deficit came about and present a plan to return to an accumulated surplus financial position.

Of course, some parts of the accumulated surplus are understandably tied up in ongoing projects, set aside for planned increases in spending, or come from restricted funding sources that put constraints on the use of funds. These “internally restricted” portions generally make up the majority of operating surpluses accumulated by BC school districts. Even restricted pools of funds, however, should be queried as restrictions can be undue or excessive. Overall, it is easy to see how policy encourages districts to accumulate surpluses, even those that can grow too large at the expense of classroom spending. **In a climate of persistent underfunding of education, excessive transfers into the surpluses are effectively cuts to spending on services in the classroom.**

## Accumulated surpluses today

At the end of 2016–17, the last year for which Audited Financial Statements are available, British Columbia’s school districts held a total of \$298 million in accumulated operating surpluses. This is equivalent to 5.7 percent of total operating expenditures by districts (\$5.27 billion) in the same year. It is also \$51 million more than the total from the previous year, a substantial 21 percent increase.

There is wide variation between districts within this provincial figure. Below are tables that list the ten districts with proportionately the largest surpluses relative to annual spending and by dollar amount.

District	Accumulated operating surplus (June 30, 2017)	Annual operating expenditure (2016–17)	Accumulated surplus as a share of expenditure
Stikine	\$3,401,758	\$5,396,035	63.0%
Central Coast	\$1,681,729	\$5,450,524	30.9%
Fraser-Cascade	\$5,110,637	\$19,405,923	26.3%
Arrow Lakes	\$1,559,621	\$7,212,991	21.6%
Nicola-Similkameen	\$4,999,628	\$25,624,152	19.5%
Peace River South	\$6,652,388	\$42,321,582	15.7%
Campbell River	\$7,759,140	\$52,673,545	14.7%
Vancouver Island West	\$1,047,807	\$8,356,241	12.5%
Prince George	\$15,124,398	\$127,397,350	11.9%
Greater Victoria	\$19,769,564	\$184,892,339	10.7%
District	Accumulated operating surplus (June 30, 2017)	Annual operating expenditure (2016–17)	Accumulated surplus as a share of expenditure
Surrey	\$36,102,107	\$630,045,999	5.7%
Coquitlam	\$21,301,123	\$267,871,225	8.0%
Greater Victoria	\$19,769,564	\$184,892,339	10.7%
Langley	\$16,895,718	\$185,495,800	9.1%
Prince George	\$15,124,398	\$127,397,350	11.9%
Delta	\$11,996,498	\$152,649,020	7.9%
Abbotsford	\$11,880,499	\$175,732,235	6.8%
Burnaby	\$11,204,901	\$227,902,767	4.9%
Vancouver	\$9,954,335	\$491,042,279	2.0%
Central Okanagan	\$7,898,559	\$200,486,578	3.9%

Table 1. School districts with the largest accumulated operating surpluses as a share of expenditure and as a dollar amount, 2016–17 (Source: School district Audited Financial Statements, Schedule of Changes in Accumulated Surplus (Deficit) by Fund, Schedule 1).

Disproportionately smaller districts (by size of annual budget) are those with the largest accumulated operating surpluses as a share of expenditures. These districts may have a harder time spending periodic increases in funding and they may also lack the financial expertise to plan with smaller contingencies. In terms of absolute dollar amounts, the list of the largest accumulated surpluses is unsurprisingly dominated by big urban districts. Many of these are also sizeable in relative terms, from five to ten percent of expenditures.

A more detailed provincial breakdown of accumulated surpluses into restricted and unrestricted funds is available for one year prior, 2015–16. The following table has a provincial breakdown of accumulated surpluses in their restricted and unrestricted portions.

<b>Accumulated operating surplus , all districts, 2015–16</b>	<b>Dollar amount</b>	<b>Share of total</b>	<b>Share of annual spending</b>
<b>Restricted due to constraints on funds</b>	\$14,914,918	6.0%	0.3%
<b>Restricted due to unusual expenses identified by management</b>	\$8,898,252	3.6%	0.2%
<b>Restricted due to operations exceeding the current year</b>	\$173,371,598	70.2%	3.3%
<b>Unrestricted</b>	\$49,947,008	20.2%	1.0%
<b>Total</b>	<b>\$247,131,776</b>	<b>100.0%</b>	<b>4.8%</b>

Table 2. Breakdown of total accumulated operating surpluses across all districts into internally restricted and unrestricted funds, 2015–16 (Source: School district Audited Financial Statements).

Looking at the 2016–17 school year again, BC’s sixty school districts also recorded a total of \$153 million in operating surpluses just for the year, a substantial 2.9 percent of expenditure in just one year and a red flag. (For comparison, the Greek government being subjected to suffocating austerity is forced to maintain a surplus of 3.5 percent on its annual budget.) A majority of this \$152 million was, however, redirected into other funds as the provincial total of accumulated surpluses only grew by \$51 million. This is another red flag.

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## Red flag: Sharing out surpluses

Transfers from the annual operating surplus into other accumulated funds are a second, equally important concern next to the size of accumulated surpluses. When boards end up running large surpluses, then money that could have been spent in the classroom or on resources often ends up redirected elsewhere, particularly into various capital funds, often those at the sole discretion of district administration. With the current chronic underfunding of K–12 public education in British Columbia, these are harmful and unnecessary transfers of resources away from the actual teaching of students. And they understate the extent of operating surpluses being accumulated.

The most prominent, public and problematic example of such interfund transfers in recent years took place in School District #83, North Okanagan-Shuswap. In 2016, the minister of education intervened to dismiss the district's Board of Education over financial mismanagement. At issue was the fact that the district had built a new \$9 million administration building and a new \$1 million school works building funded by five years' worth of transfers from the accumulated operating surplus into the local capital fund. Rather than seeking dedicated capital funding, district administration and the school board had allowed sizeable operating surpluses to be diverted away from classrooms—less funding for teachers, EAs and school resources. (For comparison, this \$10 million in capital spending is equal to one-sixth of the North Okanagan-Shuswap district's 2016 operating spending.) The 2016 crisis in North Okanagan-Shuswap led the Ministry to hire an independent advisor, Watson Advisory, to produce a report on the governance practices in that district and provide recommendations to avoid such mismanagement in the future.

This case may be particularly alarming but it is reflective of a broader trend. Recall that a majority of 2016–17's annual operating surpluses were redirected to other funds at the end of the year. Interfund transfers are sign that annual operating surpluses may be excessive. With outdated materials, unfunded curriculum change, under-resourced special education and many other chronic issues, it would be preferable for money earmarked for the classroom to stay in the classroom.

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## What is reasonable?

A natural question arises at this point: what is a reasonable accumulated surplus? The short answer is that there is no singular definition or target. The longer answer is that what is reasonable will depend on circumstances, which include district characteristics (such as size by enrollment and geography), the design of the education funding formula, enrollment trends and multi-year operations planning. In particular, changes to accumulated surpluses will understandably be contingent upon enrollment projections for upcoming years as well as anticipated changes to both expenditures and revenues. This does not, however, mean it is impossible to judge when accumulated surpluses may be becoming excessive or to demand transparency in how they are set.

The Ministry's Toolkit for Boards of Education: Accumulated Operating Surplus does not give school boards any guidance as to the size of accumulated surpluses and there is no provincial policy, which sets either targets or rules to follow when planning annual or accumulated surpluses. (A hard target or a prescribed minimum would in fact be detrimental, reinforcing unwarranted belt-tightening.)

To some degree, however, this guidance function has been outsourced to consultants. For example, a 2015 report from the global consultancy Ernst & Young that looked at the Vancouver School Board's finances suggested a target of 2 to 3 percent of annual operating expenditures for the unrestricted accumulated surplus. This is overly cautious, especially considering that a district's funding can only fall by a cumulative 1.5 percent in any given year as outlined provincial funding formula as well as the fact that enrollment is projected to rise across most of the province for the next several years. It is important to remember that reports like this one were commissioned by a Ministry of Education that often seemed to have an interest in excessive fiscal discipline.

Indeed, the VSB disagreed with this high target and in 2016 the consultancy changed this to a target for the total accumulated operating surplus. This is a seemingly more reasonable, although still relatively high. Yet even in light of this cautious target from Ernst & Young, accumulated surpluses across the province would currently be two to three times too large, as they totaled 5.7 percent of annual expenditures in 2016–17. Most districts exceed even the 3 percent upper bound of this target range.

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While it bears repeating that accumulated surpluses are a necessity for districts due to their limited capacities to raise revenues on their own, they are but one indicator of school district health and have to be measured against other indicators and goals. Accumulated surpluses that are excessive, unreasonably growing over time or the source of large transfers to other funds can negatively impact on a districts ability to provide a good education to students. All three can be indicators of district mismanagement or another means of dealing with a situation of chronic underfunding.

## **Recommendations: Adequacy of funding, accountability, transparency**

Two things are clear. First, BC schools and students need adequate provincial funding that not only reverses chronic shortages but fulfills the needs of a modern, inclusive, equitable public school system. Second, school districts need to be held to a far greater degree of transparency and accountability in how they plan and manage accumulated surpluses.

The single biggest change to alleviate the problem of excessive accumulated surpluses would be for the provincial government to adequately fund public K–12 education. Both the impulse to accumulate excessive surpluses and the damage their accumulation does to classroom conditions would be dramatically reined in with the necessary funding. Much of the pressure for districts to accumulate excessive surpluses (and cut operating expenditures to do so) comes, paradoxically perhaps, from the already-tight budgets they face. Not only is there not enough to cover school needs today—from classroom supplies and up-to-date materials to supports for special education—but uncertainty about even greater insufficiencies in upcoming years often drives further reductions though accumulated surpluses. The vicious circle is complete because now the baseline is an even lower level of services.

Correspondingly, advocating for improved, stable and adequate funding from the provincial budget can move the baseline in the other direction. Our public education system has absorbed an austerity framing of budget issues because it has been subject to austerity for so long. It is time to reverse course.

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To be sure, increased funding on its own would not solve every issue related to the accumulation of excessive surpluses by school districts. Budget processes often lack transparency, accountability and predictability. The Watson report into mismanagement at the North Okanagan-Shuswap school district included a number of very good recommendations to increase all three of these around accumulated surpluses. Many of these recommendations are also taken up nearly verbatim by the Ministry in its Toolkit for Boards of Education: Accumulated Operating Surplus.

Several key governance reforms suggested by the Watson report would be well-heeded across the province—and some are already in place in some districts:

- A “surplus policy” that provides guidance for the size of annual operating surpluses and how to distribute anticipated surpluses between the accumulated surplus, interfund transfers, and back into current-year spending.
- Formal approval of interfund transfers through school board discussion and a motion.
- Quarterly reporting of a district’s financial position and financial projections to allow trustees and stakeholders to verify whether the size of contingency funds matches developments in revenues and expenditures.
- Specific identification of contingencies and reserves built into budgets.
- A clear, process for developing and approving the local capital budget.

The Ministry in its Toolkit also adds a welcome suggestion that annual operating surpluses should not be transferred to local capital funds without clear detail of how these funds will be spent.

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Other recommendations are more far-reaching and require more study, including the idea to move to rolling multi-year budgets. This would provide more year-to-year flexibility and give districts more room for long-term planning around contingencies that do not require building up large accumulated surpluses.

Finally, it is important to note that documents like the Watson report, on the one hand make good recommendations on process, while on the other, accept and are indicative of the current austerity mindset. Describing the budgeting process, the Watson authors write, “With the grant announcement in March, the District is in a position to understand any shortfall in funding. Beginning in April, the public consultation process begins to identify opportunities to balance the budget.” The assumption is that funding will be inadequate and that the role of trustees and stakeholders is to find the least painful cuts—here euphemistically described as “opportunities to balance the budget.” In today’s world, budgeting magically transforms cuts to children’s education into “opportunities” for the public. Stakeholders need to push back against such assumptions by arguing for adequate funding while simultaneously demanding transparent and accountable governance.

**Appendix: Accumulated operating surpluses of  
British Columbia school districts as of June 30, 2017**

School district	Annual Operating Surplus/(Deficit)	Accumulated Operating Surplus/(Deficit)	Operating Expenditure	Accumulated surplus as % of expenditure
05 Southeast Kootenay	\$2,082,192	\$4,091,602	\$54,793,968	7.5%
06 Rocky Mountain	\$1,354,729	\$2,710,279	\$37,025,410	7.3%
08 Kootenay Lake	\$649,240	\$2,028,857	\$52,435,082	3.9%
10 Arrow Lakes	\$172,753	\$1,559,621	\$7,212,991	21.6%
19 Revelstoke	\$243,586	\$921,451	\$11,325,015	8.1%
20 Kootenay-Columbia	\$1,257,825	\$2,714,376	\$36,053,827	7.5%
22 Vernon	\$1,053,139	\$1,602,957	\$81,707,938	2.0%
23 Central Okanagan	\$6,129,416	\$7,898,559	\$200,486,578	3.9%
27 Cariboo-Chilcotin	(\$805,102)	\$2,375,090	\$54,152,553	4.4%
28 Quesnel	\$829,713	\$1,370,891	\$33,486,302	4.1%
33 Chilliwack	\$2,729,862	\$7,665,339	\$124,866,444	6.1%
34 Abbotsford	\$4,707,503	\$11,880,499	\$175,732,235	6.8%
35 Langley	\$4,662,051	\$16,895,718	\$185,495,800	9.1%
36 Surrey	\$21,808,998	\$36,102,107	\$630,045,999	5.7%
37 Delta	\$3,764,335	\$11,996,498	\$152,649,020	7.9%
38 Richmond	\$5,807,126	\$7,868,506	\$192,798,478	4.1%
39 Vancouver	\$3,482,703	\$9,954,335	\$491,042,279	2.0%
40 New Westminster	\$2,216,152	\$4,034,903	\$64,698,427	6.2%
41 Burnaby	\$3,520,503	\$11,204,901	\$227,902,767	4.9%
42 Maple Ridge-Pitt Meadows	\$4,474,707	\$5,186,468	\$135,271,828	3.8%
43 Coquitlam	\$39,069,759	\$21,301,123	\$267,871,225	8.0%
44 North Vancouver	\$505,423	\$6,162,327	\$149,949,153	4.1%
45 West Vancouver	\$133,029	\$2,571,950	\$70,628,208	3.6%
46 Sunshine Coast	\$633,078	\$2,966,212	\$36,990,091	8.0%
47 Powell River	(\$194,557)	\$829,957	\$23,461,201	3.5%
48 Sea to Sky	\$1,650,974	\$2,756,743	\$48,934,519	5.6%
49 Central Coast	\$205,888	\$1,681,729	\$5,450,524	30.9%
50 Haida Gwai'i	\$348,961	\$350,672	\$10,120,296	3.5%
51 Boundary	\$349,190	\$1,504,342	\$16,012,418	9.4%
52 Prince Rupert	\$1,452,018	\$1,894,350	\$24,276,360	7.8%
53 Okanagan Similkameen	\$1,578,380	\$2,306,583	\$24,269,009	9.5%

School district	Annual Operating Surplus/(Deficit)	Accumulated Operating Surplus/(Deficit)	Operating Expenditure	Accumulated surplus as % of expenditure
54 Bulkley Valley	\$742,601	\$2,155,533	\$21,803,529	9.9%
57 Prince George	\$4,474,806	\$15,124,398	\$127,397,350	11.9%
58 Nicola-Similkameen	(\$289,129)	\$4,999,628	\$25,624,152	19.5%
59 Peace River South	\$984,876	\$6,652,388	\$42,321,582	15.7%
60 Peace River North	\$1,607,607	\$4,638,287	\$59,924,368	7.7%
61 Greater Victoria	\$2,955,704	\$19,769,564	\$184,892,339	10.7%
62 Sooke	\$1,811,629	\$1,187,618	\$96,901,900	1.2%
63 Saanich	\$831,606	\$2,096,208	\$73,809,907	2.8%
64 Gulf Islands	(\$499,528)	\$273,131	\$21,292,329	1.3%
67 Okanagan Skaha	\$1,737,026	\$900,022	\$53,955,739	1.7%
68 Nanaimo-Ladysmith	\$3,957,997	\$5,364,699	\$122,628,807	4.4%
69 Qualicum	\$785,273	\$1,266,993	\$44,701,117	2.8%
70 Alberni	(\$591,811)	\$131,449	\$38,712,647	0.3%
71 Comox Valley	\$3,075,545	\$2,656,789	\$75,068,616	3.5%
72 Campbell River	\$1,463,287	\$7,759,140	\$52,673,545	14.7%
73 Kamloops Thompson	\$2,571,540	\$6,195,717	\$139,429,850	4.4%
74 Gold Trail	\$2,568,849	\$854,722	\$17,687,863	4.8%
75 Mission	\$2,618,427	\$2,629,279	\$57,388,891	4.6%
78 Fraser-Cascade	\$622,601	\$5,110,637	\$19,405,923	26.3%
79 Cowichan Valley	\$1,892,379	\$3,852,583	\$75,178,536	5.1%
81 Fort Nelson	\$322,129	\$473,087	\$9,538,394	5.0%
82 Coast Mountains	\$1,301,241	\$554,527	\$50,058,613	1.1%
83 North Okanagan-Shuswap	\$1,493,581	\$1,279,663	\$61,312,253	2.1%
84 Vancouver Island West	\$190,937	\$1,047,807	\$8,356,241	12.5%
85 Vancouver Island North	(\$216,978)	\$859,027	\$18,256,702	4.7%
87 Stikine	\$415,315	\$3,401,758	\$5,396,035	63.0%
91 Nechako Lakes	(\$1,122,760)	\$1,057,338	\$53,418,317	2.0%
92 Nisga'a	(\$98,164)	\$8,850	\$8,419,541	0.1%
93 Conseil scolaire francophone	\$1,087,392	\$1,727,361	\$78,181,190	2.2%
<b>Provincial total</b>	<b>\$152,567,552</b>	<b>\$298,417,148</b>	<b>\$5,270,882,221</b>	<b>5.7%</b>

Source: School district Audited Financial Statements, Schedule of Changes in Accumulated Surplus (Deficit) by Fund, Schedule 1; BCTF calculations.

