

Finance Watch

MAKING SCHOOL FINANCE ACCESSIBLE

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Ministry report sheds little light on district business companies

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Introduction

On October 18th, the Ministry of Education released its long-awaited "School District Business Entity Review" report. Prepared by former ADM and school superintendent Doug Hibbins, the report purports to examine the governance and operation of board companies with a view to determining whether these companies serve the public interest. Hibbins' report went to the Minister sometime in July but has been under wraps for the last three months, presumably to afford the government time to formulate its response.

If parents, educators, support staff and others were expecting a detailed examination of the past four years of school district involvement in business ventures, they will be disappointed. And, if readers of the report anticipated a thoughtful consideration of policy options designed to quell rising public concern over this involvement, they are likely to be left scratching their heads.

Hibbins' report falls short of meeting these expectations. It contains no factual documentation of business company involvements. It provides no accounting of company finances, including no information on whether public funds have been diverted to uses. It offers no real or detailed description of how boards have used their new business companies. And, it sheds no light on who has benefited from the first four years of school system involvement in these ventures.

Concerns

These issues are of material interest to staff working with schools. Many support staff facing the prospect of

reduced work hours – whether in the form of four day school weeks or expanded holiday calendars – draw cold comfort from news of growing employer involvement in outside business activities.

Educational assistants working "bell to bell" with students and lacking the luxury of preparation or meeting time on the job take an understandably dim view of the idea that district revenues might be used to capitalize new programs operating somewhere beyond provincial or national boundaries.

And teachers dealing with class size limits specified by Bill 33 without specific funding support will be less than pleased to see a report offering no clarification as to whether scarce funds are being diverted away from pressing needs in the classroom.

All of this concern takes place against a backdrop of mounting public anxiety regarding both the cost of growing board involvement in outside business ventures and concern that funding intended to meet the needs of kids in BC classrooms is possibly being used for other things.

Background

Hibbins' overall mandate was to review the operation of school district business companies with a view to enhancing public accountability and transparency. He was also charged with the responsibility of investigating the public interest implications of district involvement in these companies. In the course of his review, Hibbins met with school board officials, parents' groups and interested members of the public. He also sought and received access to relevant financial records of school board companies.

"who has benefited from the first four years of school system involvement in these ventures?"

Growing school board involvement in outside business areas raises many serious questions. In general, these boil down to the issue of what business projects or activities have to do with educating students in BC. Coming amidst mounting pressure on boards to use tight financial resources to maintain services to students, many staff, parents and community members are also voicing specific concerns regarding the possible use of school district revenues to subsidize activities that fall outside the public school system.

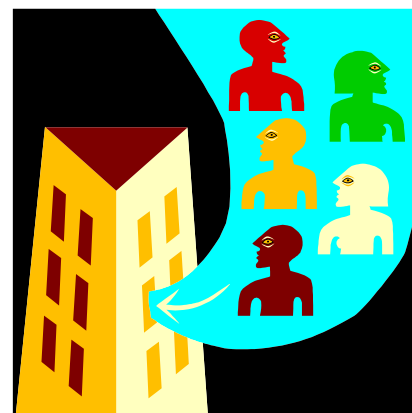
What does the report recommend?

Hibbins made nine recommendations in his report and the Ministry has decided to implement eight of these. Specifically,

A majority of company officers will have to come from outside the district and be at "arms length" from the school board and its employees,

The annual year-end of companies must

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now be aligned with the public school system at June 30th of every year, Business companies must appoint auditors and prepare audited financial statements, Transactions between boards and companies must be itemized in a schedule and not simply consolidated for reporting purposes, Companies must prepare annual reports on operations within three months of the end of the year, Companies must hold open annual meetings within three months of the end of a financial year, where financial statements are presented and auditors appointed, Freedom of Information legislation must apply to companies, School district blanket liability coverage will not apply to the operations of companies, (particularly given the oft-stated objective of limiting board liability through the creation of separate business entities).

Many of these recommendations are laudable because they enhance openness and accountability. However, they are for the most part basic practices. It does not require the paid services of an outside consultant to specify a requirement for scheduled meetings, financial statements and formalized audits. If anything, the report's recommendations offer a clear reflection of how secretive the operation of these companies has been for the past four years. It also underscores just how remiss the Ministry of Education has been in allowing these shortcomings to linger for so long.

Funding of board companies

A key concern of K-12 stakeholders and the community at large is that funding allocated in support of public school budgets in this province not be used to finance school board business companies.

It is however well known that school districts have funded new companies by transferring international student tuition from board budgets to the coffers of new businesses. In District 64 Gulf Islands, business company tuition revenue jumped from \$40,000 in 2002/03 to \$760,000 in 2003/04. Over the same period, tuition revenue to the District's annual budget fell from over half a million dollars to zero. By moving this revenue "off book" the District effectively capitalized its new business company venture. However, early the following year and pleading lack of money, the District imposed a four day school week, disrupting the lives of parents while slashing the income received by many support staff on its payroll.

The fact that the Minister chose to sidestep Hibbins' ninth recommendation – to allow boards to loan unrestricted operating budget surpluses to companies – reflects the politically-sensitive nature of this issue. If implemented, this kind of funding liberalization could create perverse incentives for districts to restrict public school spending as a means of steering capital to new business ventures.

However, given the absence of financial documentation in Hibbins' report, it is impossible to know what the actual financial experience has been with company start-ups around the province. Where and how have business companies received funding? How much have they re-

ceived? And what has been the impact on revenues received by public school budgets? Lots of questions related to funding but no answers.

Comment

The primary flaw in this report is that, despite major transparency and accountability concerns, it fails to offer even a summary description of business company activities and finances. For their effort, readers of the report are no wiser in regards to a number of key issues relating to the past four year's operation of school business companies. For example,

- Which specific boards are involved in business companies?
- What are companies actually doing?
- How much money has been invested to date?
- Where has the money come from?
- Who earns fees or commissions from the start-up and operation of companies?
- How much if any return has been earned on investment?
- How much debt has been accumulated to date on behalf of school board owners?
- Have company business plans been borne out in actual practice?

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Treasury Board Freezes Annual Facilities Grant

The BC government has decided to freeze the Annual Facilities Grant to districts pending further consideration. The fund is designed to allow districts to make strategic maintenance and upkeep investments so as to lengthen the useful life of capital assets. The decision to freeze this spending was made back in summer but for some reason was not clearly communicated out to districts until September.

The total value of the grant in 2006/07 is \$110 million and a small portion of this amount has already flowed to districts. The rationale for the freeze lies with the rising cost of construction and the competition for limited funds at the level of Treasury Board. Many districts are understandably upset because they have initiated projects involving staff and materials that will be left in the lurch.

It is hard not to see the long shadow of the Olympic Games falling over this decision. Rising costs means more competition for scarce money. In the final analysis this will see some areas get less priority than others. Evidently, efforts to preserve the value of school assets and to slow the rate of their depreciation does not rank as high as other spending commitments.

This is the second capital-related setback for public schools. Rising construction costs have also taken a toll on funding committed to making BC schools safe from the threat of earthquakes. Earlier this year, the Ministry confirmed that the pace of seismic upgrade work will be slowed because funds committed will not go as far as earlier anticipated.

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- Can any of these business ventures be deemed a success based on available evidence?

Without empirical evidence, Hibbins' report simply asserts that board business ventures are in the public interest. In this connection, the report contains the following rather remarkable statement and conclusion.

"Based on the successes achieved by school district business companies to date, there is *little evidence suggesting that these entities are serving the public interest.* (italics added). However, the marketing of education should remain an important provincial priority."

One is clearly left to wonder how or why the lack of evident success supports a policy recommendation of "full steam ahead" for the marketing of public education services.

In a similar vein, the report notes that most business companies have under-estimated costs associated with penetrating markets for "off-shore-schooling" and have therefore "failed to achieve their financial targets." Yet, the conclusion drawn is that "economic and other benefits of off-shore programs warrant continued involvement in these markets."

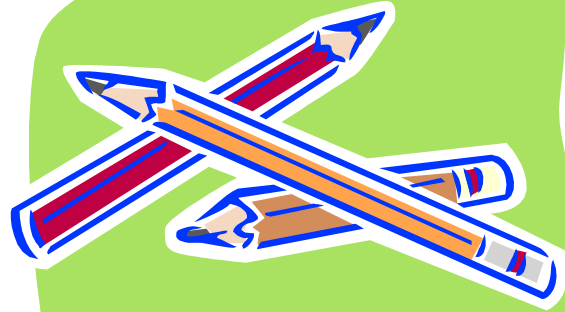
These kinds of logical jump-shifts clearly undermine the report's validity. While it might be tempting to write them off to sloppy research, the report's market-oriented arguments justifying school board business ventures point to a strong underlying ideological bias. Hibbins notes that,

"education as been recognized as a tradeable commodity by the World Trade Organization since 1996. Since that time, a number of nations have commenced selling education services overseas to emerging markets in Asia and Europe."

Based on this observation, the merits of school district involvement in this marketplace derive simply from the fact that this marketplace exists and is seen to be growing. With this goes the idea that,

" school district business companies must operate with a degree of secrecy in order to take full advantage of emerging business opportunities, safeguard the entity from business risks, and serve the business interests of the shareholder."

"an ideological argument... without the apparent distraction of factual documentation."



Presumably this is intended to dampen expectations of complete openness. However, it is important to emphasize the ideological character of this argument. What is more, it is one that flows directly from a starting premise without the apparent distraction of factual documentation.

Conclusion

The bottom line in this discussion is whether school board involvement in business entities really does serve the public interest. If readers allowed themselves to be limited by the wafer-thin fact base contained in this report, it would be impossible to venture an answer to this question.

However, anyone concerned with the future of public K-12 education and how it is both governed and financed might consider following question. Why, with a mandate to investigate the public interest of school board businesses, would a report abandon efforts to provide relevant factual information in favour of speculating on ways public school budgets might be squeezed to generate start-up money for new business ventures?

About the publisher

John Malcolmson is a sociologist working on research & evaluation in the fields of public education, education finance, literacy, labour issues, justice and social policy. He has analyzed school finance for many years, written numerous reports and offered workshops in the area. He currently works as a researcher with CUPE.



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