

# **Management Initiatives in Ontario School Boards: Supporting Student Achievement by Minimizing Distractors**

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## *Introduction*

Ontario<sup>1</sup> has introduced significant education reforms over the past four years. The election of an education oriented government led to a focus on higher student achievement, reduced gaps in student achievement and improved public confidence in the public education system. Early results have been promising, with standardized test scores for elementary students rising and graduation rates for secondary students increasing as well.

The range of initiatives and supports introduced to achieve these results has been broad. The Ministry of Education established the Literacy and Numeracy Secretariat to lead improvements in the elementary sector and a Student Success strategy to guide change in the secondary sector. Investments and support have been introduced to support professional development of teachers and principals, and new frameworks developed to guide special education, aboriginal and French language education.

One of the important supporting elements has been a focus on strong management, and the introduction of a range of sector wide initiatives to support and strengthen management. School boards manage significant amounts of public money, serve as large employers and are effectively large scale real estate and transportation companies. Clearly the central focus of the organization is education, but all of these supporting responsibilities must be managed effectively to minimize distractors.

During the past four years, as in the past, some budget and management problems have emerged in the Ontario sector. Despite significant increases in funding (24% over four years; 29% increase in per pupil funding, to \$9,400 per pupil) a small number of school boards ran deficits. Others experienced problems with the management of staff and trustee expenses, and some experienced difficulties in managing capital projects or long term debt. Others were experiencing problems with managing their busing responsibilities within their budgets.

The ministry was regularly called upon to assist or intervene in these situations. Although solutions were identified to address the individual instances of problems, the ministry became interested in developing a more comprehensive approach to evaluating and supporting high quality management in Ontario school boards.

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<sup>1</sup> Ontario is a jurisdiction with just under two million students and 72 school boards, organized into four sectors: English public, English Catholic, French public and French Catholic. Annual education funding, as of the 2007-08 school year is projected at \$18,445,000 M.

A couple of key developments strengthened this focus. The province's Auditor-General was given expanded responsibilities to review the broader public sector, including school boards. One of the first reviews undertaken was a study of procurement practices in school boards, which led to recommendations for improvement. Given the scale of the education sector, it could be expected that the Auditor-General would be engaged regularly in school boards on other topics.

In addition, the province of Ontario adopted new accounting standards which consolidated the financial results of school boards into the province's reporting entity. In effect then, the surpluses and deficits of school boards have a direct, dollar for dollar impact on the province's fiscal position. This led to an even greater emphasis on school board financial management.

These developments all supported a focus on systematic review and support of school board management processes. However the overriding motivation for the ministry was that of eliminating distractions from the goal of improved student achievement. It was clear that school boards in deficit, receiving negative press due to expenses or experiencing controversy over capital projects or procurement problems, were not focused on student achievement for the weeks or months it took to resolve these problems. Management and trustee attention was diverted and student achievement in these boards was not strong. Conversely, Ontario's leading school boards in student achievement were consistently characterized by an absence of management and financial distractors.

The initiatives introduced to support management processes are outlined later in this paper. However Ontario has a strong infrastructure of financial and data reporting on which these initiatives were based. This infrastructure is briefly described next.

### ***Key Infrastructure***

Since the introduction of a new funding model in 1998, the ministry has worked with school boards to develop a framework for financial management, reporting and accountability. A key element is the province's web-based financial reporting tool, the Education Finance Information System (EFIS) which school boards use to calculate their grant eligibility and report expenditures. This system governs four major financial submissions annually (Estimates, Revised Estimates, Financial Statements and a mid-year expenditure report to facilitate provincial budgeting).

The province also operates the School Facilities Information System (SFIS) which is used to maintain detailed information on all school facilities, to submit capital plan information, capital funding requests and to calculate

eligibility for some pupil accommodation grants. This system operates as a common data repository and provides mapping and report capability for school boards.

The ministry oversees a predictable annual funding and financial reporting cycle with defined deadlines for the submission of Estimates (annual budgets) by June 30, Revised Estimates, based on actual enrolment counts as of October 31, by November 15 and audited Financial Statements as of December 1. Whenever possible, the ministry releases annual funding information by March 31 to support the fiscal year for school boards which begins the following September 1. The ministry regularly consults with school boards on funding model improvements and works with the legal, audit, banking, financing and credit review communities to ensure that the professionals who advise and support schools boards are well informed on developments that affect school board requirements and responsibilities.

The ministry has also maintained the practice of building scenario analysis tools, informally known as “sandboxes”, which allow school boards to generate revenue predictions under different enrolment or grant scenarios. This supports forward planning and allows school boards to begin their internal budget processes as early as possible. This practice of providing flexible web based tools has also supported the release of customized funding allocations, which furthers the province’s objectives of relating funding to local cost structure and need to the greatest extent possible.

### *Key Management Support Initiatives*

#### **Transportation**

One of the first “lines of business” to be systematically reviewed was student transportation. Ontario school boards cover a wide geographic territory and an extensive road network. The fact that multiple school boards cover the same territory introduces an additional complexity as the provincial government has been promoting and eventually mandating, joint transportation systems.

The funding approach for transportation has been a challenging element in funding reform. Although there have been funding models developed and tested since 1998 (a point of significant funding model change in Ontario) transportation funding has been largely based on expenditure patterns as of 1998, with inflation and enrolment increases recognized and funding floors offered to boards with declining enrolment.

Part of the challenge in arriving at a new transportation funding model was the widely differing levels of efficiency amongst school boards. Some boards had implemented a progressive approach to delivering transportation through consortia, with well defined governance, policy and operational standards. These boards also were using advanced forms of routing software to optimize bus routes and school bell times. Other boards were less sophisticated in terms of transportation management. The differing levels of efficiency hampered efforts to establish a new allocation basis for transportation as funding impacts of new models under consideration were significant in some cases.

The most recent approach has introduced “effectiveness and efficiency (E&E) reviews” for student transportation systems. The province began by mandating transportation consortia and defined a three year time frame for this transition. Boards were required to outline their current or proposed consortia plans, which were submitted for review to an external committee. The committee either accepted the plans as meeting the criteria established or returned the plans with recommendations for improvement. At this point in time, virtually all boards have approved consortia plans, either implemented or in the process of implementation.

The next step was to initiate “E&E” reviews of transportation consortia. Four specific areas were reviewed: consortia governance; policies and practices; routing efficiency and contract management. The ministry established contracts with an external review team, composed of a leading management consulting firm and a US based student transportation consulting firm. This team visited consortia sites and established a rating for the consortia in each of these four areas. Where the boards involved in the consortia were incurring expenditures above the level of their allocation for transportation, the rating determined the level of their “funding reset”. For example a board with a high rating in all four categories would be eligible for a 100% adjustment in their funding, to the level of their expenditures. A board with a moderate or low rating would be eligible for a 50% or 30% adjustment respectively. Effectively, this created an approved budget model, with the constraint that consortia which did not demonstrate a high level of effectiveness and efficiency in all four areas were not fully funded to the level of their expenditures, pending action on recommendations related to their review report. Although consortia are eligible for a return visit and subsequent review, the expectation is that action on the recommendations will reduce costs. Early experience to date has supported this assumption, in that consortia reviewed and found to be rated below high have managed to identify ways to reduce their expenditures.

It is interesting to note that the experience with the early site reviews has appeared to influence the sector more broadly. In the year prior to the beginning of the reviews, the net sector deficit in transportation was \$45 M. Subsequent to the first four reviews, which produced substantive reports, the net sector deficit dropped by 50% to \$22 M. Although a number of factors may

have influenced this, it does appear that consortia are looking at improved governance, more consistent application of policies such as eligibility and improved routing efficiency as they prepare for their own upcoming reviews. This appears to have had the effect of improving transportation management in general and also of identifying efficiencies which have lowered costs. The implications for student safety as governance and management improve are also positive.

The third element of transportation supports was intended to address consistency and standards for contracting practices between school boards and bus operators. The ministry commissioned a cost benchmark study for school buses which was led by a major management consulting firm. This firm reviewed financial information from a range of operators and established a benchmark, reflecting both standards and current market conditions, for the cost of operating a school bus for a school year. This benchmark has supported a funding adjustment to boards where the average contract price is below this benchmark, adjusted for local circumstances such as route length and number of rolling days. The benchmark is also expected to streamline local contracting negotiations.

In addition, the ministry has convened a Contracting Practices Advisory Committee to establish templates for a contract between a school board and bus operator. The committee will also be examining procurement approaches which balance the need for appropriate procurement practices with the need for operator stability.

The strategy of beginning with transportation management as opposed to transportation funding approaches was a response to the unique Ontario experience of having undergone at least two major attempts at developing a transportation funding approach, neither of which were adopted. The current approach may be transitional but it does seem to have demonstrated early success in strengthening management and reducing costs, as well as offering the province a credible approach for offering funding adjustments where these are demonstrated to be justified.

### **Operational Reviews**

With the transportation function being addressed by the E&E review process, the ministry began to examine how the other major lines of school board business could be supported. As a result, the ministry initiated a procurement process to obtain the services of two major management consulting firms who would work together to review all Ontario school boards' policies and practices in three other areas: financial management, human resource management and facilities management.

The ministry and the lead firms worked with an advisory committee from the education sector over a period of several months to develop a review guide

covering these three areas. This guide defined “leading practices” in each of these areas, and outlined an interview guide and request for documentation which would support an evaluation of board practices against these leading practices. The guide was piloted in four Ontario school boards in the summer of 2007 and subsequently refined before reviews were initiated in the fall of 2007. On the basis of the pilot experience, a short review of governance practices was added, as it was felt to be integral to an assessment of management practices.

The review process is substantial. Boards are asked to provide documentation in advance, which is supplemented by profile and benchmarking data provided by the ministry. Consultant teams visit the boards for a period of three to five days to conduct interviews with a range of board staff and trustees. Substantial reports and recommendations are envisioned as documentation of these reviews, along with return visits to assess progress within the three year period.

To date, the response to this initiative has been positive. The collaboration of sector leaders in defining the process and the leading practices has contributed to the legitimacy of the project. The project is intended to highlight and support the need for strong management practices in these areas, to complement strong academic leadership and performance within a school board. Both education directors and senior business officials have been supportive. As in the transportation initiative, there is evidence of improved management as school boards prepare for their review using the publicly available review guide.

### **Capital Templates**

A recent addition to management infrastructure has been a tool referred to as “Capital Liquidity Template”. Since 1998, Ontario has operated a formula based capital grant program that provides an automatic revenue stream to school boards when their enrolment exceeds their board-wide school capacity. This funding approach has required school boards to take on long term financing to match the twenty five year term of grants provided. In addition, the province has undertaken a number of capital programs focused on specific aspects of capital need, such as schools in poor condition, schools to extend the province’s network of French language schools and new schools and additions to support the introduction of caps on primary class size.

In 2006, the province introduced the requirement for ministry review and approval prior to a school board beginning a new capital project. This new accountability provision was intended to ensure that school boards had the financial resources to carry a project through to completion, while ensuring that all prior capital debt servicing commitments could be met. This initiative was undertaken in response to concerns raised by capital rating agencies and to concerns that boards were occasionally initiating projects without sufficient

understanding that funds in their capital reserves were, to some extent, encumbered by the need to maintain liquidity throughout the years in which they would have long term financing obligations. In addition, staff turnover in some boards had occurred without full knowledge transfer with respect to long term debt commitments.

In reviewing the financial circumstances of school boards with respect to capital, it became clear that not all school boards maintained their records in a similar fashion. In addition, the “stock and flow” analysis required to analyse a board’s position with respect to capital reserves and revenues differed sufficiently from the annual management of operating budgets that it was felt that a new tool was required.

The ministry developed a new tool, referred to as the “Capital Liquidity Template”, which captures the capital construction and financing history of school boards since 1998. The tool includes linked spreadsheets to document the capital construction history, past and projected capital revenues, a ten year history of capital reserve deposits and withdrawals, and a full history of debenture financing obligations. With this core information, the tool can provide a projection of liquidity (that is, the risk or certainty that the board will be able to meet its capital debt obligations in all years) and scenario analysis on the board’s ability to take on new capital projects. The tool also can support analysis on whether to apply reserves against capital project costs or whether reserves need to be encumbered to ensure liquidity throughout the term of existing debentures.

The tool generates summary graphs which are extremely helpful in assessing these scenarios-essentially, capital reserve balances need to stay above zero in all years. The graphs also summarize total capital construction, total financing, total cash contributions and total non-permanently financed debt. These summary graphs are extremely helpful in illustrating complex financial analysis on the affordability of new capital projects to board staff and trustees. The templates are also facilitating timely reviews and approvals of proposed capital projects by ministry staff.

### **Risk Based Management Plans**

Ontario school boards are required, by legislation, to establish and maintain balanced budgets. The ministry reviews school board budget plans and engages with boards where there is a risk of a board incurring a deficit.

On occasion, a board will advise the ministry that they are unable to balance their budget, or will report that they have incurred a deficit during a year where they had forecasted a balanced budget. Where these variances are minor, boards assume responsibility for undertaking measures to bring their budgets back into balance, either in-year or in the subsequent year.

For many years, the ministry chose to engage with boards using a threshold of a "1% deficit". That is, where the deficit exceeded 1% or more of a board's operating budget, the ministry would formally request a deficit management plan. The board would be required to prepare and approve a plan of measures which would bring the board's budget back into balance.

Beginning in 2007-08, the ministry began to examine the use of reserves as well, as a means of forecasting boards that were approaching the risk of an operating deficit. Boards which were relying on reserve funds to make up 1% or more of their operating revenues were flagged as risks. In these cases, the ministry analyzed whether the board's reserve funds would sustain this level of reliance for three or more years. If not, the board was asked for a deficit management plan. In some cases, the use of reserves was intended to support one-time expenditures; however in some cases, this represented a pro-active intervention which has the potential to reduce the risk of deficits in future years. In all cases, this brought financial risk to the attention of boards which met these conditions, and allowed for corrective actions to be taken at an early stage.

### *Future Initiatives*

The initiatives described above are multi-year or ongoing initiatives which are in the early stages of implementation and which will continue to be refined over future business cycles.

There are however, two additional initiatives which will be receiving support and attention over the coming year and which also have the potential to strengthen and modernize management in the school board sector.

The first is the mandated transition to full Public Sector Accounting Board (PSAB) standards of presenting financial results in the school board sector. Currently, Ontario school boards are preparing financial statements on a PSAB basis but not preparing budgets on this basis. Ontario school boards effectively budget on a modified cash basis which presents a straightforward comparison of revenues and planned expenditures for the upcoming school year. Boards will have to make the transition to budgeting and reporting on a PSAB basis by the 2009-10 school year. The ministry will be working with school boards to understand the implications of this change in presentation and will also be making the necessary changes to legislation and regulations governing school board budgeting.

The second initiative is the creation of the Ontario Education Cooperative Marketplace (OECM) to support purchasing and supply chain management in the elementary/secondary and postsecondary sector in Ontario. The Ontario government has made strategic investments to create infrastructure in both

the health and education sectors to undertake modernization of the purchasing function. The OECM model will guide education institutions in managing their estimated \$4.4 B of non-salary spending, and in bringing institutions and the supplier community together to obtain optimal pricing for education sector purchasing.

## *Conclusion*

The above initiatives illustrate the key concept behind the Ontario Ministry of Education's view, which is that a high standard of management is essential to ensuring that the academic staff and trustees of school boards can focus on student achievement. The scale and sophistication of management required to run public sector entities such as school boards is very high. The need to identify "lines of business" and the leading practices against which school boards should benchmark themselves has been a constructive approach to supporting Ontario school boards. A key element in this approach has been the collaboration of boards themselves in identifying these leading practices and in working toward ensuring that these standards are met. Board staff have also been pivotal in identifying the tools and support needed to reach these standards.

In Ontario's experience, boards are as likely, if not more likely, to face media criticism for gaps in management, such as procurement or real estate decisions that do not stand up to public scrutiny, as they are for their academic performance. Small events, such as a misuse of credit cards, can earn a board weeks of public criticism and can undermine the confidence that the board needs to earn and maintain for its work to support students.

Public sector management is often less well understood, and underexamined relative to private sector management. The Ontario initiatives, and in particular the transportation and operational review initiatives, will produce a body of observations about the management practices in Ontario school boards that could well inform both management and education researchers. More significantly, Ontario's objective and process for bringing existing practices into line with leading practices over the coming years will be one which could provide a powerful model for collaborative improvement for other education jurisdictions and public sector entities.

Perhaps the most significant observation is about the power of observation. Oversight of school boards tends to focus on student achievement and the delivery of education. The capacity to observe the management aspects of Ontario school boards, to provide supports for improvements where needed, and to showcase leading practices where these are in place, is a powerful tool. The objective is to ensure that strong and consistent management practices

can be relied upon by trustees and senior management teams and that the focus of governance and academic leadership can be on student achievement.