

## Chapter 8

### Capital Asset Planning for Schools

#### 1.0 MAIN POINTS

This chapter describes our audit of the Ministry of Education's (Ministry) capital asset planning processes for facilities to house and support educational programs and instructional services for students in school divisions.

Effective capital asset planning processes help the Ministry to ensure the right size of schools are built in the right location to facilitate the needs of students. The Ministry has the responsibility to oversee capital asset projects for the entire provincial Pre-Kindergarten to Grade 12 system. School divisions are required by the Ministry to identify and manage capital asset projects. Each school division conducts analysis of its capital asset needs compared to its existing capacity and requests Ministry approval for projects to meet its needs.

Saskatchewan's population has been shifting towards becoming more urban, resulting in enrolment changes across school divisions. As a result, in some cases schools are being over utilized, while in other cases they are being under utilized. The Ministry has the challenge of balancing the demand for new schools with the cost of maintaining safe and healthy schools, including those that are experiencing declining enrolment.

Currently, there are 41 approved projects on the Ministry's 2012 Capital Request list (projects completed and currently under construction) that will cost approximately \$735 million. The Ministry provided \$47 million to assist school divisions in funding capital projects during 2011-12 and estimated it will spend \$112.4 million in 2012-13 and \$119.6 million in 2013-14.

For the twelve-month period ended December 31, 2012, we found the Ministry of Education did not have effective capital asset planning processes for facilities to house and support educational programs and instructional services for students in school divisions.

The Ministry needs to:

- › Develop and use a capital asset strategy that coordinates overall capital needs for the Pre-Kindergarten to Grade 12 system across the province to ensure the most important projects are approved and completed on a timely basis
- › Review, update, and communicate to school divisions its capital asset policies (including Funding Guidelines) for the provincial Pre-Kindergarten to Grade 12 system including providing guidance on how it coordinates needs across the province
- › Conduct analysis of the provincial Pre-Kindergarten to Grade 12 system capital asset requirements and capacity in order to identify current and future gaps
- › Consistently prioritize all capital project requests across the provincial Pre-Kindergarten to Grade 12 system and track those projects



- › Select the method of financing for capital projects of school divisions based on the analysis of capital financing alternatives
- › Measure the success of its capital asset strategy

In this chapter, we make eight recommendations to assist the Ministry of Education in improving its processes.

## 2.0 INTRODUCTION

*The Education Act, 1995* (Act) assigns to the boards of education (school boards) responsibility for the administration and management of school facilities, with oversight from the Ministry of Education (Ministry). The Act requires the Ministry to approve all major capital projects (i.e., those costing more than \$1 million) such as construction of new school buildings, additions to existing school buildings, or major renovations of school buildings. The Ministry is responsible for aligning capital project funding with the educational needs of communities and the provincial Pre-Kindergarten (Pre-K) to Grade 12 system as a whole. **Figure 1** highlights the key responsibilities of the Ministry and of school divisions related to capital projects according to the Act.

**Figure 1 – Key Responsibilities of the Ministry and School Divisions for Capital Projects**

School Division Responsibility	Ministry Responsibility
Prepare operating and capital budgets for Ministry approval	Approve operating and capital budgets
Prepare and maintain inventory of capital assets	-
Determine capital needs and submit project requests to Ministry	Approve major capital projects
Submit budget request to Ministry	Approve capital grants
Determine financing needs and submit request to borrow to Ministry	Provide consent for capital borrowing

Source: *The Education Act, 1995*

## 3.0 BACKGROUND

Functional school buildings are necessary for students to maximize their learning opportunities. Over 168,000<sup>1</sup> children are in Saskatchewan schools each day. The province has 28 school divisions with 603 schools, as shown in **Exhibits 7.1 and 7.2**. The province's population continues to shift towards urban areas, resulting in enrolment increases and decreases in some school divisions. For example, as shown in **Exhibit 7.1**, six school divisions have had enrolment increases greater than 3.8% since 2010.<sup>2</sup> Conversely, some school divisions have excess capacity in some schools (**Exhibit 7.1** shows 67 schools with a utilization rate of under 50% at September 30, 2012). In addition to providing capital funding to school divisions with increasing enrolment, the Ministry must also ensure that school divisions with declining enrolment receive

<sup>1</sup> Provincial K-12 Student Enrolment Summaries obtained from: [www.education.gov.sk.ca/IEF/2012-provincial-k-12-enrolment](http://www.education.gov.sk.ca/IEF/2012-provincial-k-12-enrolment) (12 April 2013).

<sup>2</sup> Provincial School Enrolment Statistics. [www.education.gov.sk.ca/edfinance/provschool-enrolment](http://www.education.gov.sk.ca/edfinance/provschool-enrolment) (12 April 2013).

sufficient funding to maintain schools appropriately to provide a safe and healthy learning environment.

About 70% of school buildings in the provincial system are more than 40 years old.<sup>3</sup> Statistics Canada estimates the service life of education buildings at about 40 years.<sup>4</sup> Therefore, significant investment in maintenance, renovation, or replacement of schools is likely to be required in the next several years.

Annually, the Ministry issues a Major Capital Request List<sup>5</sup> to communicate capital projects in progress and new major capital requests received from school divisions. The 41 projects on the 2012 Major Capital Request List (projects completed and currently under construction) will cost approximately \$735 million (\$427 million funded by the Ministry; \$308 million funded by the school divisions).<sup>6</sup> There are also 113 new major capital requests for which final project costs will be determined if approval is received from the Ministry to start detailed planning. The Ministry provided \$47 million<sup>7</sup> to assist school divisions in funding capital projects during 2011-12, and budgeted \$112.4 million and \$119.6 million<sup>8</sup> for the fiscal years 2012-13 and 2013-14, respectively. The current level of funding is not sufficient, contributing to an infrastructure deficit. As such, it is important that effective and economical choices are made as to where capital money is spent. **Exhibit 7.1** compares capital funding to enrolment and school utilization for the period of 2010 – 2012.

Effective capital asset planning processes are essential to reduce the risk of funding lower priority capital projects.

The overall vision (direction) of the Government of Saskatchewan is “Saskatchewan will be the best place in Canada – to live, to work, to start a business, to get an education, to raise a family and to build a life.”<sup>9</sup> This direction should drive the Ministry’s strategic plan, which then should drive capital asset planning and decision-making. However, this is currently not the case. Implementing the eight recommendations in this chapter will help the Ministry to align its capital asset strategies with the goals of the Government. This alignment will help to ensure the right schools are constructed/renovated at the right time to best meet the overall educational needs of Saskatchewan.

## 4.0 AUDIT OBJECTIVE, SCOPE, CRITERIA, AND CONCLUSION

The objective of this audit was to assess whether the Ministry had effective capital asset planning processes for facilities to house and support educational programs and instructional services for students in school divisions for the twelve-month period ended December 31, 2012. Facilities include school buildings, land, and significant permanent installations (e.g., heating and air conditioning units).

We reviewed the policies and guidelines governing the Ministry’s capital asset planning processes, and examined information the Ministry used to analyze capital projects

<sup>3</sup> Source: Ministry of Education.

<sup>4</sup> Ministry of Education Plan for 2012-13, p. 13.

<sup>5</sup> The Major Capital Request List is prepared by the Ministry on an annual basis and prioritizes the approved major capital requests and indicates the current stage of the approval process for projects.

<sup>6</sup> [www.education.gov.sk.ca/corporate-services/infrastructure/2012-capital-request](http://www.education.gov.sk.ca/corporate-services/infrastructure/2012-capital-request) (12 April 2013).

<sup>7</sup> *Ministry of Education, 11-12 Annual Report*, p. 24.

<sup>8</sup> Saskatchewan Ministry of Finance. (2013). Saskatchewan Provincial Budget 13-14 – Balanced Growth: Estimates, p. 56.

<sup>9</sup> Saskatchewan Provincial Budget 13-14 – *Balance Growth: Budget Summary*, p. 6.



recommended by school divisions. In the winter of 2013, we observed and discussed with four selected school divisions their processes and the documentation they used to identify capital asset priorities and prepare requests for capital asset funding from the Ministry. In February 2013, the remaining 24 school divisions were surveyed to supplement our understanding of the Ministry's processes. **Section 5.0** and **Exhibit 7.3** summarize the survey results.

To conduct this audit, we followed the *Standards for Assurance Engagements* published in the *CICA Handbook - Assurance*. To evaluate the Ministry's capital asset planning processes, we used criteria based on the work of other auditors and current literature. **Section 8.0** includes the primary sources for these criteria. Ministry of Education management agreed with the criteria in **Figure 2**.

**Figure 2—Audit Criteria for Capital Asset Planning Processes**

<p>To have effective capital asset planning processes for facilities in school divisions, the Ministry should:</p> <ol style="list-style-type: none"><li><b>1. Coordinate a system-wide strategy</b><ol style="list-style-type: none"><li>1.1 Have an established capital asset policy framework</li><li>1.2 Establish criteria to prioritize capital asset needs</li></ol></li><li><b>2. Identify capital asset needs</b><ol style="list-style-type: none"><li>2.1 Determine long-term capital asset needs</li><li>2.2 Determine existing capital asset capacity (i.e., collect accurate and complete information from school divisions)</li><li>2.3 Analyze the gap between existing capital asset capacity and long-term needs</li></ol></li><li><b>3. Select capital asset projects</b><ol style="list-style-type: none"><li>3.1 Assess alternatives to meet needs (including consideration of life-cycle costs)</li><li>3.2 Approve capital asset projects that meet priority needs</li><li>3.3 Determine how capital asset projects will be financed</li><li>3.4 Ensure proper accounting for financing arrangements</li></ol></li><li><b>4. Measure success of capital asset strategies</b><ol style="list-style-type: none"><li>4.1 Set measures to evaluate (e.g., location, size of schools, capacity utilization)</li><li>4.2 Evaluate planning process</li></ol></li></ol>
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**We concluded that, for the twelve-month period ended December 31, 2012, the Ministry of Education did not have effective capital asset planning processes for facilities to house and support educational programs and instructional services for students in school divisions. The Ministry needs to:**

- › **Develop and use a capital asset strategy that coordinates overall capital needs for the Pre-Kindergarten to Grade 12 system across the province to ensure the most important projects are approved and completed on a timely basis**
- › **Review, update, and communicate to school divisions its capital asset policies (including Funding Guidelines) for the provincial Pre-Kindergarten to Grade 12 system including providing guidance on how it coordinates the needs across the province**
- › **Conduct analysis of the provincial Pre-Kindergarten to Grade 12 system capital asset requirements and capacity in order to identify current and future gaps**
- › **Consistently prioritize all capital projects across the provincial Pre-Kindergarten to Grade 12 system and track those projects**

- › **Select the method of financing for capital projects of school divisions based on the analysis of capital financing alternatives**
- › **Measure the success of its capital asset strategy**

## 5.0 SURVEY SUMMARY

In this section, we summarize the results of our school division capital asset planning survey (survey) of the 24 school divisions we did not visit during our audit. The survey consisted of questions answered using a rating scale and yes/no responses. These results were used to supplement our understanding of the Ministry's processes. The overall response rate to our survey was 88%. **Exhibit 7.3** shows the survey questions and a summary of results.

According to the survey, 55% of school divisions identified that the capital asset planning processes used by the Ministry for schools in Saskatchewan are not effective. The Ministry did not provide capital asset planning guidance to meet the needs of 55% of school divisions.

The Ministry requires school divisions to maintain long-term capital asset plans that identify gaps and deficiencies to support capital requests. 65% of school divisions understood that requirement, and 80% indicated that they prepared a long-term capital asset plan.

The challenges to completing accurate capital asset plans were also identified by school divisions. 50% of school divisions did not receive guidance from the Ministry on how to inventory current capital assets. As well, 65% of school divisions indicated that they did not receive guidance from the Ministry on evaluation of future capital asset needs (i.e., projecting future enrolment, consulting with municipalities on expected growth). Additionally, 70% of school divisions did not receive guidance from the Ministry on how to conduct the appropriate analysis needed to support their capital asset funding requests.

According to 50% of the survey respondents, the Ministry clearly communicated how school divisions' capital asset projects will be funded. 70% of school divisions did not identify in their capital asset plans how construction of capital assets would be funded.

## 6.0 KEY FINDINGS AND RECOMMENDATIONS

In this section, we describe our key findings and recommendations related to the audit criteria in **Figure 2**.

### 6.1 System-wide Strategy to Coordinate Capital Asset Planning Needed

The Ministry's capital asset policy framework is documented within the Pre-K to Grade 12 School Facilities Funding Guidelines (Funding Guidelines). The Funding Guidelines



apply to publicly-funded educational facilities offering the provincially-approved Pre-K to Grade 12 curriculum. The Funding Guidelines include the Ministry's detailed processes for capital project approval and prioritization (including project prioritization criteria) on a project-by-project basis.

We expected that the Ministry's capital asset Funding Guidelines would consider a capital strategy in the context of the provincial system as a whole (i.e., system wide). We found that the Funding Guidelines and *The Education Regulations, 1986* (Regulations) use a "silo" approach. The Ministry analyzed individual capital project requests based on circumstances of only the requesting school division. The Regulations and the Funding Guidelines do not require a coordinated analysis of capital needs across school divisions. For example, the Ministry calculated a weighted utilization factor for each school using enrolment statistics from school divisions (i.e., looks at enrolment compared to school space). For each capital project, the Ministry used the weighted utilization factor to assess whether a school had a critical space shortage. If a school was over utilized, the Ministry assessed the utilization of other schools in that school division within a 30 kilometer radius to identify possible alternate schools that the students could attend. However, the Ministry did not analyze utilization of schools within a 30 kilometer radius located in other school divisions. See **Exhibit 7.1** for analysis of over/under utilization of schools.

**Figure 3** describes a further example of an issue that has resulted when a system-wide strategy to coordinate capital asset planning is not used. Cross-divisional solutions will require Ministry communication of strategies to support and foster collaboration among school divisions. In some cases, the Ministry has been able to work with school divisions to successfully employ a joint-use approach.

**Figure 3—Example of Managing Challenges Across School Division Boundaries**

In the winter of 2013, we visited a school division that has a Kindergarten to Grade 8 school located in a small community. The student enrolment at this school is less than 35 students (which is about 2% of the school division's total enrolment). The school requires significant capital upgrades in the near future.

The school division recognizes that providing significant capital funding to a school with such a small enrolment may not be the most economical use of funding. Before the school division can consider closing this school, it is required to conduct a school review pursuant to section 87.2 of *The Education Act, 1995*. However, section 95.8(2) of *The Education Regulations, 1986* (Regulations) prohibits a school review from taking place if the distance to the nearest school within the same school division exceeds 40 kilometers. The school in this case is more than 40 kilometers from the nearest school within the school division, prohibiting management from conducting a review of this school.

However, this school is less than 20 kilometers from the nearest school that is within another school division. This may present an opportunity that is not currently considered under the existing capital asset Funding Guidelines and the Regulations (e.g., administrative agreement to share facilities, bus students to the other school).

Source: Provincial Auditor Saskatchewan (February 2013)

If the Ministry does not conduct a coordinated analysis of capital requests across school divisions throughout the provincial system, capital funding may not be provided to the right school divisions. This could increase the risk that several projects may receive capital funding when other alternatives such as busing students to another nearby school (even if it is not in the same school division) may be the most efficient use of scarce resources.

1. **We recommend that the Ministry of Education develop and use a capital asset strategy that coordinates overall capital needs for schools in the provincial Pre-Kindergarten to Grade 12 system.**

### 6.1.1 Policies (Funding Guidelines) Outdated

We expected that the Ministry would formally review the continued relevance of its Funding Guidelines. The Funding Guidelines in effect during our audit period were established on April 1, 2006. In our survey, school divisions indicated that there is confusion regarding application of the current Funding Guidelines and changes to the funding model. The Ministry advised us that it is in the process of doing a comprehensive review and update of the Funding Guidelines.

Since the Ministry's last formal review of the Funding Guidelines in 2006, the Government has significantly changed its relationship with school divisions, which has impacted how capital projects are funded. Historically, each school division would establish the education property tax mill rates necessary to assist in funding its capital projects. With changes to the Act in 2009, authority to establish education property tax mill rates moved from the school divisions to the Government. As the result of Government policy decisions to lower education property taxes, the Government began providing more capital funding to school divisions through grants. The Funding Guidelines have not been updated to reflect these changes.

In addition, the province has experienced growth and demographic shifts in its population since 2009 resulting in significant school enrolment increases for certain school divisions, as seen in **Exhibit 7.1**. These increases translate into some overcrowded schools in these divisions. Conversely, other school divisions are experiencing decreases in enrolment and underutilization of their schools (see **Exhibit 7.1**). Further, nearly 15% of the province's growth from 2009 to 2012 has been in the 0-4 year age group and over 40% has been in the 20-35 year age group (i.e., common age for child bearing).<sup>10</sup> This suggests that further growth in school enrolment will likely occur over the next few years, increasing the pressure for adequate space in some school divisions. Statistics show that this growth is much higher in some communities (e.g., Saskatoon and Regina and their surrounding communities). The completion of an analysis of student enrolment growth trends to support capital decision-making will be important.

The Funding Guidelines are structured to function in an environment where the population is static. The Ministry's 2012-13 Plan recognized the growth expected in the province, but the Funding Guidelines do not address the impacts of this expected growth (e.g., increasing demand for classroom space, higher costs of construction). A capital asset plan that is kept up to date and linked to the strategic goals of the Ministry and the Government would help the Ministry to predict and anticipate these impacts.

To address the future impacts from changes in funding practices and enrolment, the Ministry's approval processes need to be timely and sufficiently flexible. School divisions commented that the Ministry's capital asset approval processes are not timely,

<sup>10</sup> Saskatchewan Population (at July 1, 2012), by Age Group, 2002 to 2012. Saskatchewan Bureau of Statistics.



which in turn results in delays in building schools and increased costs (e.g., inflationary increases on construction costs). Delays may be caused by a variety of reasons (e.g., issues in design, contractor availability). **Figure 4** describes an example of the impact that may result if capital decisions are not timely. In November 2012, the Ministry announced plans to speed up the process for portable classrooms to better meet the needs of school divisions. In April 2013, it announced it had identified suppliers to provide up to 40 portable classrooms in time for the beginning of the 2013–2014 school year.

**Figure 4—An Example of Impact of Slow Approval Process**

One rural school division we visited in the winter of 2013 has been experiencing significant challenges due to unprecedented enrolment growth. Enrolment in this school division increased about 4% between September 1, 2010 and August 1, 2012, with higher growth in certain communities. The length of the approval process had a significant impact on this community.

On November 7, 2011, the school division requested Ministry approval to build two portable classrooms that a school needed for the beginning of the next school year in September 2012. The project concept was approved by the Ministry on March 14, 2012. Following this, the school division completed the design phase and tendered construction. On June 20, 2012, about two months prior to the school division's requirement for the portable classrooms, the Ministry approved that the school division could begin construction. Given these timelines, the contractor was not able to build and install the portable classrooms before the beginning of the school year in September 2012. The portable classrooms arrived at the school in January 2013 and were not yet fully installed as of March 31, 2013, after the school year was nearly over. As a result, classrooms were overcrowded for most of the school year.

Source: Provincial Auditor Saskatchewan (February 2013)

The Funding Guidelines should be periodically reviewed and updated to maintain their relevance, which will help ensure that required schools are built in time to meet the evolving needs of communities. The Ministry may find it useful to consult with school divisions to identify concerns with the Funding Guidelines including the evaluation of future capital asset needs and the analysis required to support capital asset requests. Communication to school divisions on subsequent changes would help ensure there is a clear understanding of the Funding Guidelines.

**2. We recommend that the Ministry of Education formally review, update, and communicate its capital asset policies (including Funding Guidelines) for the provincial Pre-Kindergarten to Grade 12 system on a timely basis.**

**3. We recommend that Ministry of Education formally review, update and communicate the process for the prioritization of provincial Pre-Kindergarten to Grade 12 system capital assets.**

## **6.2 Ministry Needs to Analyze Overall Capital Asset Requirements and Existing Capacity**

To adequately identify capital asset needs in school divisions, we expected the Ministry would ensure it had accurate and complete information comparing school divisions' long-term capital asset requirements to existing capital asset capacity (e.g., enrolment, condition of schools, location). This type of formal analysis is not conducted by the



Ministry. Rather, the Ministry relies on each school division to conduct its own analysis comparing its capital asset requirements and capacity to determine its needs (i.e., capital asset gaps). The resulting needs are documented and sent to the Ministry in the form of capital project requests (i.e., for inclusion on the Ministry's Major Capital Request List). The Ministry does not receive nor validate the accuracy or completeness of the information related to capital asset requests.

For example, the Ministry requested information from school divisions about the age of schools. However, the Ministry only received adequate information on school age for about half the schools in the provincial system. For some school divisions, the Ministry only received adequate information for a small proportion of schools. Analysis of this information is not useful because it is incomplete, which could result in the Ministry making decisions based on incomplete information.

The project requests submitted by school divisions use a form that does not encourage school divisions to provide further analysis that could be useful to the Ministry in making its capital asset decisions (e.g., business case, detailed capital plan explaining strategic alignment, environmental scan, key risks, etc.).

We visited four school divisions to obtain an understanding of the processes they use to identify capital asset needs. **Figure 5** provides examples of how this process is conducted in school divisions experiencing larger than expected growth. While we found that the school divisions we visited used many good processes, little of the resulting information is requested or received by the Ministry to enable it to fully evaluate capital asset needs across the provincial system. Our survey results highlighted that 65% of respondents did not receive guidance from the Ministry to help evaluate their future capital asset requirements and 50% did not receive guidance to help evaluate their current capacity (see **Exhibit 7.3**).

**Figure 5—An Example of Analysis Conducted by School Divisions**

One urban school division we visited in the winter of 2013 has been experiencing significant challenges due to unprecedented growth in its city. The school division maintains communication with local municipal authorities to discuss growth plans and new residential developments within the city.

The school division undertakes a capital strategic planning process annually, which includes an analysis of projected school age children in new neighborhoods. Processes also exist to ensure that information about the condition of existing schools is current and accurate. This information was taken into account when developing a five-year capital construction plan, which was provided to the Ministry. The Plan identified future capital projects for which it will request funding from the Ministry. The school division's process could improve by incorporating other available information into the capital asset approval process, such as subdivisions filling up at accelerated rates compared to original projections.

While the school division used its information internally to identify its needs, the Ministry's current process to request capital funding did not require the school division to build a business case that the Ministry could use in its capital asset decision-making process. Thus, the Ministry did not receive enough information from school divisions to compare needs across the Provincial system or to identify issues and risks that are accelerating or coming in the longer term (i.e., more than five years into the future).

Comparatively, a rural school division we visited has also been experiencing significant growth. While the school division works with local municipal authorities to predict growth and plan accordingly, it has struggled to keep up with change. Significant deferred maintenance issues are competing with growth requirements. For example, in one of its schools, there was significant degradation of the roof, requiring bracing in one classroom to support the roof. In another community, new schools are being built to accommodate overcrowded classrooms. Also, as growth in one part of the division is being addressed, new growth areas are developing that may not receive timely attention. The Ministry does not receive enough information to understand these risks and the long-term implications if these risks are not addressed.

Source: Provincial Auditor Saskatchewan (February 2013)



In addition to analysis of needs by school divisions, the Ministry needs to assess requirements across the provincial system using complete and accurate information. For example, as described earlier, in September of each year the Ministry calculates the utilization of each school for the upcoming school year in the provincial system based upon the most recent enrolment statistics available as of September 30 of the current school year. These numbers are not adjusted for changes to enrolment numbers during the year. However, the Ministry has begun to use forecasted future enrolment estimates to calculate projected future utilization rates. Further analysis could aid the Ministry in assessing whether school divisions are appropriately identifying capital asset needs. Regular review of population statistics and trends would also provide some context to assist with anticipating future capital asset needs and risks across the provincial system. Without conducting its own reasonability analysis, the Ministry cannot know whether its list of identified capital asset needs across the provincial system is complete and accurate.

- 4. We recommend that the Ministry of Education use accurate and complete capital asset information for each school division to determine overall current and long-term capital asset needs of the provincial Pre-Kindergarten to Grade 12 system.**

## **6.3 Additional Analysis Needed to Support Project Selection and Financing Decisions**

### **6.3.1 Analysis of Non-Capital Alternatives Needed**

We expected the Ministry would analyze the possible alternatives to address identified capital needs, including non-capital alternatives. The Ministry requires the school divisions to prepare feasibility studies for selected projects. School divisions hire professionals (e.g., architects) to prepare the studies and submit the resulting reports to the Ministry. These studies are adequate on a project-by-project basis to determine the most efficient capital solution for the identified need and the estimated cost. However, these feasibility studies assume that a capital project is required.

School divisions also need to analyze non-capital solutions to ensure that the most efficient solution is identified (e.g., busing students to a nearby school, sharing school facilities within and between school divisions, distance education). The Ministry does not request a full analysis of alternatives from school divisions, nor does it complete such an analysis itself. Therefore, the Ministry cannot assess if the school divisions' requests for capital funding are appropriate.

- 5. We recommend that the Ministry of Education assess both capital and non-capital alternatives to address identified capital asset needs across the provincial Pre-Kindergarten to Grade 12 system.**

### 6.3.2 Projects Need to be Prioritized on a System-Wide Basis

The Ministry used the prioritization criteria in its Funding Guidelines to rank most capital projects submitted by school divisions. It used its Major Capital Request List to communicate the priority and status of those capital projects. However, as described earlier, the Ministry needs to:

- 】 Use a capital asset strategy that coordinates overall system-wide capital needs
- 】 Update its Funding Guidelines including its prioritization criteria
- 】 Evaluate sufficient and appropriate information to identify capital asset needs
- 】 Evaluate both capital and non-capital alternatives to address capital asset gaps

Until the Ministry addresses these deficiencies in its processes, it will not know if it is properly prioritizing capital projects to address needs across the provincial system.

In the past, school divisions may have decided to “self-fund” an entire capital project (e.g., use accumulated surpluses set aside for capital purposes or that are unrestricted). The Ministry approved these self-funded projects at the required stages (e.g., concept, design, construction). However, these capital projects were not prioritized using the Ministry’s prioritization criteria and are not tracked in its Major Capital Request List. This may result in projects being completed in the province that would not have been carried out had they been appropriately prioritized by the Ministry using its prioritization process. While the Ministry did not fund these projects directly, it chose to allow projects to bypass its prioritization process. Effectively there are two systems for evaluating capital projects. The Ministry should evaluate all capital projects on the same basis. The Ministry should also track all capital projects to help it assess prioritization and risks for all capital projects over time. An example of a school division self-funding a capital project is described in **Figure 6**.

**Figure 6—An Example of Self-Funding Options**

We visited a school division that had capital projects receiving funding from the Ministry, but was also self-funding some capital projects. The projects receiving Ministry funding were prioritized in the Ministry’s Major Capital Request List. The self-funded projects were not prioritized in the Ministry’s Major Capital Request List, although they received approval from the Ministry. The school division was able to assess which capital projects were likely to receive Ministry funding and request permission to self-fund other projects that were unlikely to receive Ministry funding. This enabled the school division to bypass the Ministry’s prioritization process so it could carry out capital projects that were not a high priority to the provincial system.

Source: Provincial Auditor Saskatchewan (February 2013)

- 6. We recommend that the Ministry of Education consistently prioritize all capital projects across the provincial Pre-Kindergarten to Grade 12 system and track all capital projects of school divisions.**

### 6.3.3 Assessment of Financing Alternatives Needed

The Ministry controls the financing alternatives available for capital projects in school divisions, all of which are ultimately funded by taxpayers. The alternatives include:



- ▶ Providing grants from the Ministry
- ▶ Increasing education property taxes based on mill rates set by the Ministry
- ▶ Initiating borrowing through the General Revenue Fund (GRF)
- ▶ Directing school divisions to borrow outside the GRF
- ▶ Providing Ministry approval for school divisions to use their surplus funds for “self-funded” major capital projects
- ▶ Using Private Public Partnerships

The Ministry has a policy that gives some guidance about financing. However, the policy does not require the Ministry to analyze the benefits and risks of these alternatives to make its capital financing decisions. The Ministry did not document its assessment of the alternatives to support its capital financing decisions for capital projects we reviewed.

When school divisions borrow money outside of the GRF to pay for their share of capital projects, they require the consent of the Ministry. School divisions must provide details about the loan before the Ministry will provide consent for the borrowing (e.g., interest rate, maturity date, monthly payment amount). School divisions may be subject to higher rates of interest than the GRF (particularly given the Province’s current credit rating of AAA). Requiring school divisions to borrow outside the GRF can result in higher costs to taxpayers for school capital projects. **Figure 7** compares recent interest rates obtained by school divisions and the province.

**Figure 7—An Example of Higher Interest Rates**

Between October 2011 and February 2012, four school divisions borrowed a total of about \$31 million from financial institutions to finance capital projects. The interest rates on these loans ranged from 3.89% to 4.52%. During this time period, the GRF borrowed at a rate of 3.40%, which was lower than the rates obtained by the school divisions. If the GRF had borrowed on behalf of the school divisions, it would have secured lower rates of interest for the school divisions’ capital projects. For example, over the term of the school division loans, the estimated interest savings would have been about \$3 million if the GRF rate of 3.40% had been secured. These savings could have been used to fund other priority school capital projects in the province. The Ministry did not document its analysis of the financing alternatives for the four school divisions’ capital projects to support its decision to have the school divisions directly borrow the funds.

Source: Provincial Auditor Saskatchewan (April 2013)

**7. We recommend that the Ministry of Education select the method of financing for capital projects of school divisions based on analysis of capital financing alternatives.**

### **6.3.4 Accounting for School Division Capital Projects Needs to be Clear and Consistently Applied**

The financing method selected by the Ministry affects how the Ministry and school divisions will account for capital projects. **Figure 8** outlines the likely accounting treatment for the Ministry (and GRF), the Summary Financial Statements, and school

divisions for each financing alternative for capital projects in school divisions based on Canadian public sector accounting standards.

**Figure 8—Likely Accounting Treatment for Financing Alternatives**

Financing Alternatives for Capital Projects	Likely Accounting Treatment for Summary Financial Statements	Likely Accounting Treatment for Ministry (and GRF)	Likely Accounting Treatment for School Division
Grants from the Ministry	No direct impact	Expense	Revenue
Education property taxes based on mill rates set by the Ministry	Revenue	No direct impact	Revenue
Borrowing through the General Revenue Fund (GRF)	Liability	Liability and expense (where the Ministry provides the funds to repay the loan)	Liability (to GRF)
Borrowing directly by school divisions (with Ministry consent)	Liability	Liability and expense (where the Ministry provides the funds to repay the loan)	Liability (to financial institution) (An accounts receivable from Ministry and revenue may exist where Ministry provides funds to repay the loan)
Surplus funds of school divisions (Ministry approval required)	Reduction of accumulated surplus	No direct impact	Reduction of accumulated surplus
Private Public Partnership	Accounting would need to be assessed on a case-by-case basis		

Source: Provincial Auditor Saskatchewan (April 2013)

In our *2012 Report – Volume 1*, Chapter 5, we recommended that the Ministry of Education properly record capital grants to school division in its financial records. In 2011-2012, the Ministry had issued letters to four school divisions promising to fund their entire principal and interest payments for new external capital loans totalling \$31 million until the loans were paid off. As such, the GRF financial statements for March 31, 2012 should have included an additional liability and expense of \$31 million. In November 2012, the Ministry issued letters to these school divisions revoking its promise to fund their new debt. Instead, it indicated it will determine each year whether it will fund the annual payments on these loans. The intent of these letters appears to be to avoid having this new debt recorded in the GRF financial statements.

In accordance with Canadian public sector accounting standards, published by the Canadian Institute of Chartered Accountants, the substance of transactions is considered over the form of documentation they take. When we further reviewed the Ministry's funding to school divisions, we noted that in 2012-13 the Ministry is providing 17 school divisions with \$13 million of funding; this represents principal and interest to service \$70 million of debt to financial institutions.<sup>11</sup> Therefore, we think that an additional \$39 million of debt should be recorded in the GRF. Given this transaction is between two government agencies, the total liability of school division debt is properly recorded in the Summary Financial Statements.

<sup>11</sup> This excludes two capital loans the Ministry approved in December 2012 and January 2013 permitting two school divisions to borrow from financial institutions.



### 6.3.5 Co-Ownership Model for Schools affects GRF Accounting

In March 2013, the Ministry signed agreements with seven different school divisions for related capital asset projects that set out roles and responsibilities for each party during the construction and occupation phases of the capital project. The agreements cover matters such as ownership, insurance requirements, assessment of asset condition over time, and maintenance.

We note that this co-ownership model results in the converting of Ministry capital grants/transfers (i.e., expenses of the GRF) into tangible capital assets of the GRF. As such, decisions on which capital assets the Ministry chooses to own jointly with others provides another method that can be used to control the expenses of the GRF with no real change in the finances of the Government. We are concerned that the Government may be making decisions based on the financial implications for the GRF as opposed to the financial implications for the entire government. For further discussion see our *2013 Special Report – The Need to Change – Modernizing Government Budgeting and Financial Reporting in Saskatchewan*.

## 6.4 Success of Capital Asset Strategies Not Measured

We expected the Ministry to measure the success of its capital asset strategies. The Ministry's strategic plan for 2012-13 includes various performance measures. One measure the Ministry uses to monitor its capital asset strategies is the age of provincially-funded schools. As described earlier, the Ministry has not received adequate information for a significant number of the schools in the provincial system, so this measure cannot be effectively used to analyze success of its capital asset strategies.

The Ministry has begun to collect information about the condition of schools. This information is not used in the overall analysis of the Ministry's capital asset strategies.

The Ministry does not have adequate measures and targets to monitor the success of its capital asset strategies (e.g., analysis of utilization to assess whether schools were built in the right place at the right time, expected versus actual life-cycle costs, number of capital projects completed within budget, etc.). Without measures and targets to evaluate the success of its capital asset strategies, the Ministry cannot appropriately measure whether capital funding is effectively used. Performance measures can assist organizations in identifying strategies that are not effective to allow timely adjustments.

We expected the Ministry to evaluate the effectiveness of its capital asset planning processes. Program evaluation provides information to help improve programming, policies, and alignment with strategic objectives leading to achievement of planned outcomes and efficient use of resources. In **Section 6.1.1**, we reported the Ministry needs to review and update its Funding Guidelines to ensure that required schools are built in time to meet the evolving needs of communities.

- 8. We recommend that the Ministry of Education develop and implement measures and targets to monitor the success of its capital asset strategy across the provincial Pre-Kindergarten to Grade 12 system.**

## 7.0 EXHIBITS

Enrolment is decreasing in ten school divisions, while it is increasing in 15 school divisions and static in two school divisions. There are currently 67 schools within 21 school divisions where the utilization rate exceeds 120%, and 67 schools within 16 school divisions where the utilization rate is less than 50%. The Ministry has the challenge of balancing the demand for new schools with the cost of maintaining safe and healthy schools, including those that are experiencing declining enrolment.

**Exhibit 7.1—Summary of Capital Investment, Enrolment, and School Utilization by School Division** \*

School Division	2012 Student Enrolment (Note 3)	Purchase of Capital Assets (Note 1) (millions of dollars)	Ministry Capital Grants (Note 2) (millions of dollars)	Change in Enrolment from 2010 to 2012 (unaudited) (Note 3)	% Change in Enrolment from 2010 to 2012 (unaudited) (Note 3)	Total # of Schools (unaudited) (Note 4)	Schools with Utilization Rate Greater than 120% (Note 4)	Schools with Utilization Rate Less than 50% (Note 4)
	As of September 30, 2012	From September 1, 2009 to August 31, 2012		Based on data as of September 30, 2010 to September 30, 2012		As of September 30, 2012		
Chinook	6,040	\$ 29.57	\$ 9.96	(96)	(1.56)%	30	1	9
Christ the Teacher RCS***	1,669	\$ 1.24	\$ 0.39	-	0.00%	8	-	1
Conseil des écoles fransaskoises	1,460	\$ 22.61	\$ 20.53	164	12.65%	14	3	2
Creighton	448	\$ 0.84	\$ 0.46	(33)	(6.86)%	1	1	-
Good Spirit	6,021	\$ 17.00	\$ 5.54	48	0.80%	28	3	3
Holy Family RCS	1,061	\$ 6.14	\$ 9.84	10	0.95%	5	-	-
Holy Trinity RCS	2,067	\$ 5.06	\$ 1.10	19	0.93%	9	5	-
Horizon	6,257	\$ 13.50	\$ 7.20	(223)	(3.44)%	40	1	11
Ile-A-La Crosse	389	\$ 0.98	\$ 0.11	3	0.78%	2	-	-
Light of Christ RCS	2,015	\$ 0.91	\$ 0.71	43	2.18%	7	1	-
Living Sky	5,482	\$ 12.76	\$ 1.47	-	0.00%	24	1	3
Lloydminster RCS	2,108	\$ 16.08	\$ 15.73	212	11.18%	5	3	-
Lloydminster Public	3,853	\$ 8.56	\$ 3.76	(34)	(0.87)%	9	4	-
North East	4,919	\$ 22.71	\$ 11.09	(215)	(4.19)%	21	1	1
Northern Lights	4,075	\$ 33.86	\$ 18.92	(29)	(0.71)%	19	2	4
Northwest	4,678	\$ 14.34	\$ 4.18	(57)	(1.20)%	23	-	2
Prairie South	6,522	\$ 21.13	\$ 6.12	(160)	(2.39)%	32	-	11



School Division	2012 Student Enrolment (Note 3)	Purchase of Capital Assets (Note 1) (millions of dollars)	Ministry Capital Grants (Note 2) (millions of dollars)	Change in Enrolment from 2010 to 2012 (unaudited) (Note 3)	% Change in Enrolment from 2010 to 2012 (unaudited) (Note 3)	Total # of Schools (unaudited) (Note 4)	Schools with Utilization Rate Greater than 120% (Note 4)	Schools with Utilization Rate Less than 50% (Note 4)
	As of September 30, 2012	From September 1, 2009 to August 31, 2012		Based on data as of September 30, 2010 to September 30, 2012		As of September 30, 2012		
Prairie Spirit	9,883	\$ 44.22	\$ 26.87	365	3.83%	33	4	-
Prairie Valley	8,099	\$ 48.09	\$ 7.91	165	2.08%	36	1	4
Prince Albert RCS	2,957	\$ 15.50	\$ 6.19	27	0.92%	8	1	-
Regina	20,140	\$ 67.72	\$ 40.26	400	4.19%	50	7	-
Regina RCS**	9,946	\$ 5.80	\$ 0.61	359	1.81%	11	7	1
Saskatchewan Rivers	8,403	\$ 15.36	\$ 2.38	(314)	(3.60)%	30	2	1
Saskatoon	21,550	\$ 51.91	\$ 17.98	1,097	5.36%	52	5	3
South East Cornerstone	8,145	\$ 47.39	\$ 22.46	129	1.61%	38	2	5
St. Paul's RCS	15,670	\$ 38.21	\$ 32.41	1,053	7.20%	44	12	-
Sun West	4,495	\$ 11.38	\$ 2.91	(23)	(0.51)%	24	-	6
<b>Total</b>	<b>168,352</b>	<b>\$ 572.84</b>	<b>\$ 277.08</b>	<b>2,910</b>	<b>1.75%</b>	<b>603</b>	<b>67</b>	<b>67</b>

\* Englefeld Protestant Separate School Division was not included in this analysis since it does not own any school buildings and does not receive Ministry capital funding

\*\* Regina RC – There is no existing area data for 17 schools in this Division. Utilizations calculated for 11 schools only

\*\*\* RCS – Roman Catholic Separate

Note 1: Source: Audited financial statements – Cash used to acquire tangible capital assets.

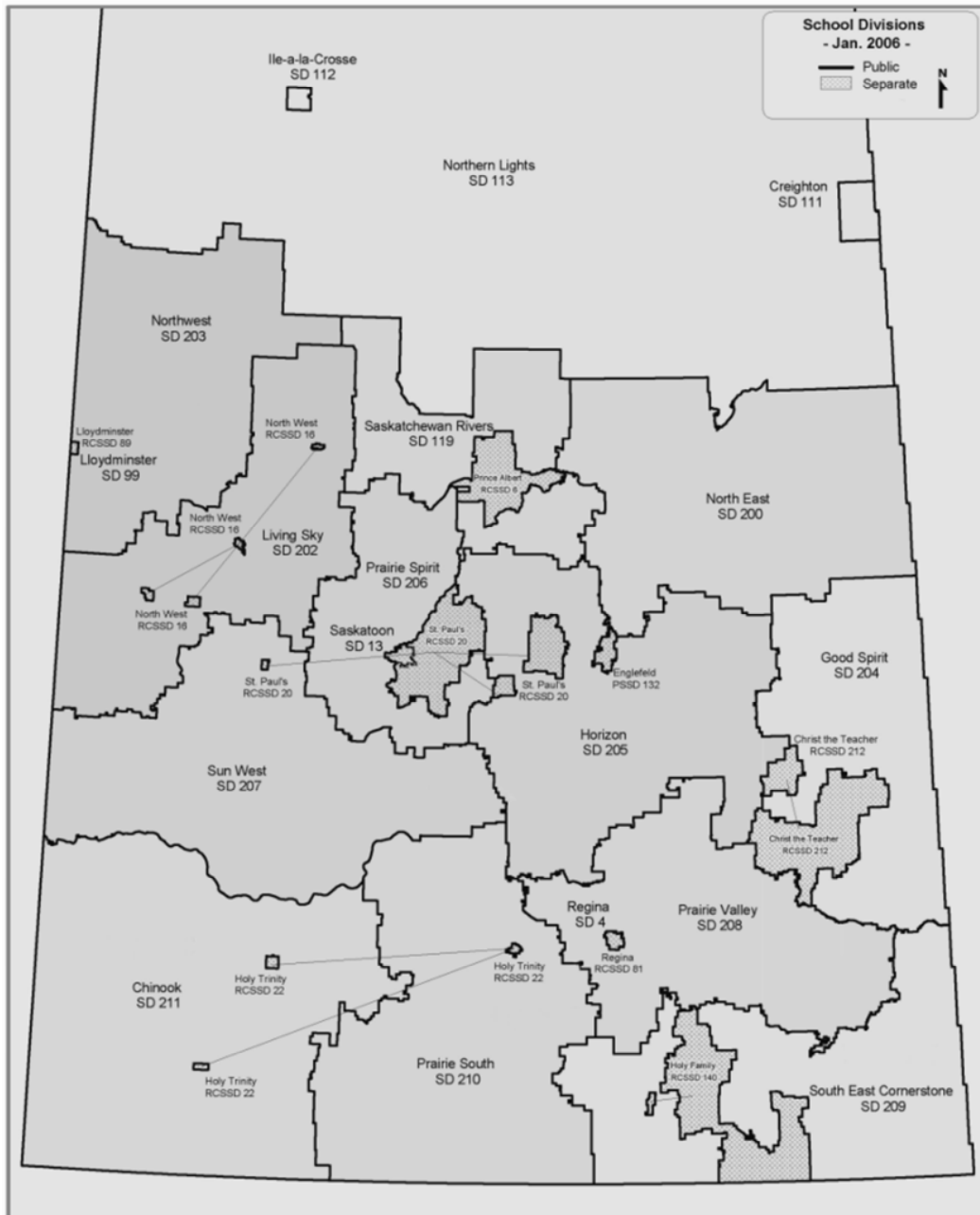
Note 2: Source: Audited financial statements – Capital Grants Revenue provided by the Ministry of Education.

Note 3: Source: Provincial K-12 Student Enrolment Summaries obtained from [www.education.gov.sk.ca/IEF/2012-provincial-k-12-enrolment](http://www.education.gov.sk.ca/IEF/2012-provincial-k-12-enrolment) (12 April 2013).

Note 4: Source: 2012 Active Capital School Utilizations calculated by the Ministry of Education (schools receiving capital asset funding). Schools with greater than 120% utilization are considered a higher priority to the Ministry. Schools with less than 50% utilization indicate significant excess capacity that may present opportunities to help alleviate overcrowding in other schools or to partner with others such as daycares.



## Exhibit 7.2—Saskatchewan School Division Boundaries



Source: Saskatchewan School Boards Association (School Divisions Map). [www.saskschoolboards.ca/index.php?id=school-divisions-divisions-map](http://www.saskschoolboards.ca/index.php?id=school-divisions-divisions-map) (12 April 2013)



**Exhibit 7.3—Summary of School Division Capital Asset Planning Survey**

	Survey Question *	No response	Strongly Disagree	Disagree	Neither Agree nor Disagree	Agree	Strongly Agree	Total
1	The capital asset planning processes used by the Ministry for facilities to house and support educational programs and instructional services for students in Saskatchewan are effective.	10%	20%	35%	35%	0%	0%	100%
2	Your school division receives an adequate level of capital asset planning guidance from the Ministry of Education	10%	15%	40%	20%	15%	0%	100%
3	The Ministry clearly communicates how school divisions' capital asset projects will be funded.	10%	5%	30%	5%	40%	10%	100%
	Survey Question *	No response	Yes	No	Total			
4	Does the Ministry provide your school division with guidance on how to inventory current capital assets (e.g., capacity, condition)?	20%	30%	50%	100%			
5	Does the Ministry provide your school division with guidance on how to evaluate future capital asset needs (i.e., consideration of projected student enrolments, consultations with municipalities on expected growth, etc.)?	15%	20%	65%	100%			
6	Does the Ministry require your school division to maintain a long-term capital asset plan to ensure capital asset deficiencies (i.e., gaps) are properly identified and addressed?	10%	65%	25%	100%			
7	Does the Ministry provide your school division with guidance on the analysis required to support capital asset funding requests (e.g., gap analysis to support capital needs, assessment of alternatives to meet needs, long-term implications such as operating and maintenance costs)?	10%	20%	70%	100%			
8	Does your school division prepare a long-term capital asset plan?	10%	80%	10%	100%			
9	Does your school division's long-term capital asset plan outline how construction of capital assets will be funded?	10%	20%	70%	100%			

Source: Provincial Auditor Saskatchewan (February 2013)

\* Englefeld Protestant Separate School Division was not included in this analysis since it does not own any school buildings and does not receive Ministry capital funding

## 8.0 SELECTED REFERENCES

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