Canadian Union of Public Employees

Briefing Note

Subject: Shared Services planned for the K-12 sector

Date: September 20, 2010.

Shared services refers to an arrangement where multiple public sector organizations create a single organizational entity charged with delivering some significant part of their service mandate.

Within the B.C. government, Shared Services BC is an agency that promotes these types of arrangements across ministries and the broader public sector. The concept and its potential application to BC's K-12 sector have been discussed for a number of years. However, in recent months, it has gained added prominence, owing to two significant developments.

The first relates to the fact four districts have been selected for a shared services pilot, as announced May 27, 2010 by the Ministry of Education. They are Vancouver, North Vancouver, Surrey and Kamloops-Thompson.

The second concerns an August 2010 report released by provincial Auditor General John Doyle that takes the government to task for inadequate systems to manage the working capital of colleges and school boards. This report recommends government take steps to reduce "excess liquidity" within the school system either by centralizing provincial control over funds held at the local district level, or by instituting new norms of financial management. It also suggests that government take active steps to promote shared purchasing power amongst boards of education.

Shared services pilot project for payroll and business systems

The initial stage of the pilot is a "fact-finding and due diligence review" of existing systems, lasting from 18 – 24 months. Challenges are to be expected as payroll services cannot be easily segregated out from larger accounting and human resources management systems.

When government made the announcement, it indicated that in other sectors, shared services have saved an estimated 10 to 15 per cent. Government noted that the estimated value of school district payrolls and business administration systems is about $70 million annually and said that savings will be returned to "the classroom."

Conversations with staff in affected districts as well as the Ministry of Education provide insight into shared services plans and the interests driving them. To summarize:

- Within the K-12 system, annualized operating budgets are close to $4.7 billion with more than 80 per cent of this directed to the payment of wages and salaries. This fact alone qualifies payroll as a logical focus for shared services initiatives.
- The provincial government's primary financial interest in K-12 shared services is less directed to service consolidation but rather focused on "just in time" funding disbursement. Under this system, the Ministry would be able to disburse money to cover payroll costs at the exact points in time when this is required. This offsets provincial interest costs associated with the current practice of sending money to districts and having it sit in district bank accounts before the money is actually spent.
- Responsibility for administering payroll to the point of conducting gross and net pay calculations for employees could remain locally administered. Data generated locally could then be transferred to a common provincial-level payroll system with direct deposit or pay cheques issued centrally.
- No contract or decision has been made regarding a system vendor for shared services payroll. The Ministry's news release suggests that it may be moving in the direction of a Telus "solution." BCSPEA's province-wide database systems, currently in development (Education Data Analysis System or EDAS and Integrated Business Administration System or IBAS) may be used to facilitate shared services.
- Any money "saved" in this manner would accrue directly to the Ministry of Finance and not to the Ministry of Education or boards of education. As such, it would not be available for redirection back into the support of student learning. The Minister's pledge to "return savings to the classroom" applies only to savings from the elimination of duplication amongst existing board-level systems and not to savings on financing costs.

There is also an important political and financial backdrop to consider in assessing the likely course for shared services implementation in the K-12 sector. Government faces a mounting backlash of parent and community anger over chronic under-funding and the Minister has a need to appear in control politically in the face of rising political opposition. Initiatives like shared services convey an impression of dynamism and innovation. The implied promise of future financial relief for financially beleaguered boards of education is politically useful.

The B.C. Auditor General's critique of working capital management

In late August, the B.C. Auditor General's office released a report titled "Management of Working Capital by Colleges and School Districts." The report criticizes government for failing to prevent the build-up of "excessive liquidity" within the school and college systems, a situation where funds are either allocated to or held by board authorities for periods of time before they are needed for use. This situation results in an inefficient capture of investment revenue.

In making these observations, the Auditor General is drawing attention to cash disbursements made to boards for general operating purposes, a system already under review by the Ministry of Education, as well as to funds currently held for earmarked projects and proceeds from the sale of surplus properties. Current arrangements see the government losing (and school districts gaining) substantial annual investment revenue that could otherwise be used to offset provincial borrowing requirements.

To deal with this situation, the Auditor General recommends that government mandate a reduction in current levels of liquidity, that it centralize the investment of available funds for the purpose of reducing provincial borrowing costs (the preferred option), or that it facilitate boards gaining access to professional investment expertise (the less favoured option). It also suggests that government promote the use of shared procurement systems to further increase efficiency in the use of working funds available for the operation of education programs.

Media reports tracking release of this report have generally misconstrued the significance of the Auditor General's comments. A Canadian Press story of August 26 presented the issue in terms of "locked in" funding which prevents districts from dealing with ongoing budgetary pressures. Similarly, a CTV news report from the same day framed the story as one of "marooned cash" not available to help districts like Vancouver address looming budgetary shortfalls. What these reports miss is the AG's and the provincial government's interest in gaining access to investment revenue currently accruing to boards of education, thus exacerbating rather than curing boards' current funding problems. Nor do the media report highlight promotion of a shared services agenda on the part of government, an agenda also driven by the push to reduce province-level spending.

Shared services elsewhere

The most high profile example of shared services is the 2003 outsourcing deal involving BC Hydro, and Accenture. Worth $1.45 billion, it covered a range of 'back office' functions including IT, customer care, payroll and human resources. Claimed efficiency gains were advertised as saving BC taxpayers $250 million in future costs. Evidence now suggests the deal will cost the province hundreds of millions in added expenses. The most telling indication of project failure is that Hydro has begun the process of in-sourcing these services.

For Boards of Education, the most pertinent example of shared services experimentation is that announced in late 2005 by the Calgary Board of Education.[1] Calgary's $65 million contract with Telus Sourcing Solutions involved development and implementation of a full-scale human resource management system to deliver "services including payroll, benefits, leave administration and recruitment and administrative activities related to the placement of

[1] Information is paraphrased from Calgary Board of Education, Minutes of the meeting of the Board of Trustees, January 6, 2009. Available at www.cbe.ab.ca/trustees/minutes/mins9jan06.pdf.

support and temporary staff." As was the case with the BC Ministry of Education's recently announced pilot, shared services in Calgary carried a similar promise of efficiencies which would allow the Board to focus on its primary mission of "providing quality education programs for students."

Implementation of the Telus system began in 2007. Almost immediately staff started reporting problems with payroll reporting, pay not being received by employees, and incorrect calculations of leave. They also reported significant levels of frustration in dealing with the outsourcing supplier in efforts resolve these issues.

Implications of shared services for boards

Evidence presented in this note points to a number of implications for the plan to implement K-12 shared services in BC. To summarize,

1. Continued hollowing out of school district capacity

This is a significant threat, especially once the expanded focus on back office and other administrative systems is taken into account. If Boards of Education lose the ability to run these systems, it will represent another significant step in the overall undermining of school district capacity. The latter is a process with a long history, dating back close to three decades and including the loss of taxing authority and the ability to negotiate collective agreements. In addition to a gradual elimination of board capacity in key areas, we are witnessing a steady undermining of the rationale for having school districts with elected boards of trustees running our public school system.

2. Loss of access to the investment income at the district level

Both the centralization of working capital administration recommended by the Auditor General and the push to implement "just-in-time" financing will have significant revenue impacts at the school district level. Interest income gained from short-term deposits of provincial grants is often used as a financial cushion to assist boards in dealing with unanticipated events or developments that carry costs not funded from other sources. In some districts, these funds are used less for contingencies and more for the support of regular educational programs. In the past two years, with interest rates at historically low levels, revenues from these kinds of deposits have been comparatively low. Despite this, in the 2008-09 year, the last for which audited financial statement information is available, BC school districts supplemented their budgets with interest and investment income totaling just under $20 million.[2] In media interviews, the Auditor General has suggested that the province could gain access to as much as

[2] BC Ministry of Education, Revenue and Expenditure Information, audited financial statement data for 2008-09 (available at www.bced.gov.bc.ca/accountability/district/revenue/0910/pdf/table21.pdf)

$40 million in short term investment earnings if it moved to implement the recommendations contained in his report. As such, shared services and "just-in-time financing" will add to the burden of a structural funding shortfall already estimated at over $300 million by BC's secretary-treasurers.

3. Possible future job impacts

Shared services carries with it the distinct threat of a loss of employment for support staff. These threats are tempered by the reality that payroll systems still require extensive on-ground support staff involvement – gathering relevant information, inputting data, readying systems for payroll runs, and dealing with inevitable errors and corrections. Much of this work does not lend itself to either regional organization or a provincially-based system.

Conclusions

The logic driving shared services in public education is not what is advertised. The real objective, while financial in nature, is driven by provincial efforts to reduce its carrying costs on borrowed money. Money saved from this initiative lies outside the pledge of the Minister of Education to return efficiency-based cost savings to the classroom.

Implications for school districts are many: loss of direct control over payroll functions, future erosion of control over other "back office" systems, significant reductions in interest income to which historically boards have had access, and possible future job losses.

Together, these developments point to a fundamental erosion of board capacity to administer the public school system. And by closing off access to investment revenue, they also herald a significant aggravation of current shortfalls brought on by chronic underfunding. In moving to implement shared services arrangements of this type, the Ministry is setting in place conditions for a continued undermining of the viability of school districts and their elected boards of education. In effect, this process furthers a slow stealth-based transformation of the co-governance model used by our public school system.

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