

Why we did this audit:

- Roughly \$80 million per year for new schools and major renovations
- Many schools in Nova Scotia in need of repairs or replacement
- Enrollment is dropping in many areas of the province
- Up to \$200 million in decisions pending for P3 schools
- Sound decision making and capital planning protects public finances

Overall conclusions:

- Overall, the Department is doing a poor job of planning for new or renovated schools
- Eastern Passage High approved for \$21 million, despite no evidence of need
- Government approved four school projects for \$63 million which were ranked significantly lower by public service evaluating committees who review capital submissions
- Despite 17 years to prepare, Department failed to take timely and appropriate action on the future of P3 schools

What we found in our audit:

- Department is not conducting multi-year capital planning for schools
- Annual decisions are ad hoc and often without supporting evidence
- New projects and school closure decisions are approved without considering how connected these decisions are
- Department selects new projects and school boards decide on closures and grade reallocation independently
- School Capital Construction Committee decisions were not supported by analysis for one of the two years we examined
- Final decisions on capital projects rests with Executive Council, which we do not audit
- New Eastern Passage high school will leave Cole Harbour and Auburn Drive high schools at less than 50% combined use
- New schools in Bridgetown and Tatamagouche and renovations to schools in Truro and Wolfville were approved by Executive Council while ranked significantly lower by the committees examining capital planning
- Department spent \$700 million on P3 schools and would pay up to \$200 million more to purchase all 39, but has failed to appropriately manage P3 decisions to date



Recommendations at a Glance	Auditee Agreement and Page Reference
Recommendation 2.1 The Department of Education and Early Childhood Development should work with school boards to have a coordinated and comprehensive long-term capital plan for schools considering all relevant factors.	Agree 30
Recommendation 2.2 The Department of Education and Early Childhood Development should work with Department of Finance and Treasury Board to develop a school-specific form for tangible capital asset requests which captures the relevant information needed for analysis.	Agree 31
Recommendation 2.3 The Department of Education and Early Childhood Development should review the decision to build a new high school in Eastern Passage and its impact on the surrounding schools.	Does Not Agree 34
Recommendation 2.4 The Department of Education and Early Childhood Development should establish and follow a consistent and clear process for evaluating capital project requests to support long-term capital planning. All new school and renovation projects should follow this process.	Agree 34
Recommendation 2.5 The Department of Education and Early Childhood Development should immediately develop and implement a process to assess future P3 decisions that provides sufficient time for all parties to make decisions and incorporates a full assessment of factors including: <ul style="list-style-type: none">• the cost of operating and maintaining schools;• projected enrollment in the school area to assess the length of time a school will be needed; and,• actual future lease rates provided by the developer.	Agree 38

2 School Capital Planning

Background

- 2.1 In 2015-16, there were 389 public schools across Nova Scotia, with provincial enrollment of over 118,000 students from grades primary to twelve. The Department of Education and Early Childhood Development is responsible for informing Executive Council on decisions related to new schools and significant renovations to existing facilities.
- 2.2 School closures are the responsibility of school boards and require the completion of a comprehensive review as outlined in the Education Act and the School Review Policy established by the Minister.
- 2.3 The Department convenes a multi-departmental committee, the School Capital Construction Committee, to review capital priorities submitted by the school boards. These proposals are scored against a set of criteria, ranked, and submitted to the Tangible Capital Asset Committee at the Department of Finance and Treasury Board. After review and ranking by the Tangible Capital Asset Committee, projects are submitted to Treasury and Policy Board for final approval.
- 2.4 The Department's budget for new school construction and renovations for the past five years has been approximately \$80 million per year (this includes funding for ongoing construction).

Fiscal Year	2012-13	2013-14	2014-15	2015-16	2016-17
Budget	\$79 million	\$84 million	\$82 million	\$82 million	\$82 million

Audit Objectives and Scope

- 2.5 In spring 2016, we completed a performance audit of the Department of Education and Early Childhood Development's capital planning process. The purpose of the audit was to determine if the Department has adequate processes to allocate available school capital funding to the areas of highest priority based on needs. We conducted the audit in accordance with sections 18 and 21 of the Auditor General Act and auditing standards of the Chartered Professional Accountants of Canada.
- 2.6 The objectives of the audit were to determine whether the Department of Education and Early Childhood Development:



- has a clearly-defined, long-term capital plan for the provincial school system;
 - makes capital decisions which are consistent with long-term plans;
 - followed its required procedures for allocating school capital funding and made decisions which are supported by evidence; and
 - has completed its due diligence in preparing to make decisions on the future of P3 schools.
- 2.7 Criteria were developed specifically for this engagement by our Office. The criteria were discussed with, and accepted as appropriate by, senior management at the Department of Education and Early Childhood Development.
- 2.8 Our audit approach consisted of interviews with management and staff at Education and Early Childhood Development, as well as staff at Finance and Treasury Board, and examination of any policies and procedures or other relevant documents to determine the capital planning process. We tested a sample of capital funding decisions to determine if the Department is following the process and making supported decisions. We examined supporting documentation as applicable. Our audit period covered April 1, 2011 to March 30, 2016. We examined documentation outside of that period as necessary.

Significant Audit Observations

School Capital Planning Process

Conclusions and summary of observations

We found that the Department of Education and Early Childhood Development has not given adequate attention to capital planning. There is little information on the general condition of the almost 400 schools in the province and no long-term plan for the provincial school system. The Department does not have documented processes to guide capital planning and decision-making practices are ad hoc and unsupported. This results in inconsistent and potentially poor decisions, as was evident in our testing. We found decisions were not supported by sufficient analysis, used unsubstantiated information, and in some cases, were not consistent with committee rankings. We are particularly concerned by decisions which appear to contradict information on which areas are most in need of new schools or significant renovations. We understand that ultimately Executive Council makes the final decisions. Beyond the information provided by the Committee, we do not



know what Executive Council's rationale is for approving school projects. Clear and consistent processes increase accountability and decrease the risk of poor decisions, which is particularly important when funding is limited.

► **There is little importance placed on capital planning within the Department**

- 2.9 *Focus on capital planning required* – We found there is little importance placed on school capital planning at the Department of Education and Early Childhood Development. There is no dedicated staff responsible for capital planning in a manner which examines the school infrastructure system as a whole. While management told us that the Executive Director of Facilities Management is responsible for acting as the Chair of the School Capital Construction Committee, and as the Department's representative on the Tangible Capital Asset Committee, there is no job description for this role. During our audit, the Department prepared a description, but it was focused on the management of school capital projects after they are approved, rather than the process required to plan and approve projects.
- 2.10 There is no long-term or multi-year capital planning within the Department and key information, such as details on facility conditions across the province, are not collected. Since spring 2015, school boards are required to complete a long-range outlook annually; however, this document provides only a high-level view of expected school enrollment. The long-range outlook does include some information on building condition, but at a very basic level, and the Department does nothing further with this information. Proper planning requires a long-term view including multi-year funding commitments. Key information such as school condition is important for this, but is also necessary for annual decision making. The failure to obtain basic information is an indication of the lack of overall attention paid to school capital planning at the Department.
- 2.11 *Lack of collaborative decision making* – Decision-making responsibilities for capital planning are divided between the Department and school boards, despite being interdependent. The Department is responsible to approve new schools and major renovations, while school boards are responsible to close schools and reallocate grade levels to make the best use of existing facilities.
- 2.12 School boards are required to make school closure decisions before any funding for a new school is approved and the closure decision cannot be contingent on funding. A school review is required prior to the closure of any school. The School Review Policy directs school boards on their role and serves two overall purposes. It is intended to guide school closure decisions made by school boards by establishing criteria for assessment and it helps ensure that school reviews are consistent across the province. The review process includes developing a plan to be implemented following a closure decision; however, if the transition plan involves renovations or a new school,



there would be nowhere to put the students impacted by the board's decision to close the school if the funding for a new school is not subsequently approved by the Province. It is difficult to understand how this approach supports sound capital planning.

- 2.13 The Department faces a similar challenge with P3 school decisions. The Department may prefer to keep some P3 schools while closing nearby schools, but the Department cannot make the decision to close a school. Instead they allow the school board to make the decision on what schools they require, regardless of what an analysis may indicate. Further concerns on this issue are addressed in more detail later in this chapter.
- 2.14 Decisions on new school construction and renovations are made based on a traditional government funding cycle of one year. This can result in years in which no new projects are approved as all available funding is required for previously-approved projects. We noted some concern from school boards with the capital planning process, particularly around the year-by-year approach to planning and the disjointed nature of decision making between the Department and school boards. This process is inefficient for planning purposes and leaves school boards to make decisions based on hypothetical future funding scenarios. A long-term capital plan in which Department and Board decisions are linked would be a more strategic approach.

Recommendation 2.1

The Department of Education and Early Childhood Development should work with school boards to have a coordinated and comprehensive long-term capital plan for schools considering all relevant factors.

Department of Education and Early Childhood Education Response: The department agrees with the recommendation there be a coordinated and comprehensive long-term capital plan for the school system, and also recognizes the current governance structure, defined in the Education Act, assigns school boards with responsibility for the control and management of its schools, including the identification of capital needs. All school boards have long-term plans. Based on this governance structure, the department expects board facilities and operations staff to provide the analysis referenced by the Auditor General to their elected boards to inform capital needs.

Within this governance structure, the department has taken steps to improve capital planning. Since 2014, government has required school boards to complete long-range regional plans for their schools. Those have been completed and are the basis for more detailed discussions between the department and school boards.

The current provincial budget process provides annual funding approvals for schools. However, the department is in discussions with the Department of Finance and Treasury Board on a multi-year capital planning process for schools.



- 2.15 *Poor support for capital decisions* – The Department evaluated capital project proposals from school boards twice between 2011-12 and 2015-16. The School Capital Construction Committee was convened each time. We found no terms of reference or documented responsibilities for the Committee and our testing showed the number of committee members scoring each proposal varied, as did the process followed. An overall casual approach to decision making and the lack of defined processes from the Department has led to inconsistent results lacking adequate support or explanation for decisions.
- 2.16 Management told us that the Committee may conduct site visits as part of their evaluation, but we found no defined process for the visits and visits are not documented. We therefore cannot determine the objective of the visits, whether the members who attended were qualified to meet the objective, what was observed, or whether a visit even occurred.
- 2.17 We attempted to test decision making for the two years that projects were assessed by the Committee. The 2013-14 evaluations were limited to a final score out of 100 with no documentation of the review process, or even a scoring breakdown on a per criteria basis. As there was no detail or support for scores available, we were unable to assess whether the evaluation of projects was reasonable. Documentation for the 2014-15 evaluations included a breakdown of the score by criteria, although there was minimal justification for the overall score. Qualitative assessment of proposals was limited, but based on the information available we found that the scoring was reasonable. However, final government decisions did not always follow the scoring results as described later in this chapter.
- 2.18 A standard provincial tangible capital asset request template is used for school board submissions. We noted in our testing that a large number of sections were not completed on many of the submissions. Sections of the template, such as return on investment, information management and policy, regulations and legislation were often left blank as there was nothing relevant to the submission. A school specific request form would ensure the Department and school boards capture the necessary information to assess school capital requests.

Recommendation 2.2

The Department of Education and Early Childhood Development should work with the Department of Finance and Treasury Board to develop a school-specific form for tangible capital asset requests which captures the relevant information needed for analysis.

Department of Education and Early Childhood Education Response: The department agrees that adjusting the tangible capital request template to make it more relevant to school capital construction would be helpful. For example, the



standard template has sections that do not apply to school submissions. Template revisions could also support the evaluation of proposals submitted by school boards.

The department is consulting Finance and Treasury Board on how to best implement this recommendation.

2.19 *No process or due diligence* – The risk of poor decision making increases when the process is not defined and documentation and justification of decisions is not required. We identified several unsupported decisions during our audit, each of which approved a new school or renovation that was either not being requested by the local school board or had been scored lower by the committees than other projects which were not approved.

► **New Eastern Passage high school not requested by school board in last 12 years**

2.20 *Eastern Passage high school* – In April 2012, the Province announced a new high school for Eastern Passage and renovations to Cole Harbour District High School, including a skilled trades centre. A proposal for a high school in Eastern Passage was submitted as a priority of Halifax Regional School Board in 2004 but was not recommended by the Department at that time. Neither project was submitted in recent years as a priority of the school board. As the projects were not submitted as a school board priority, they were not evaluated by the School Capital Construction Committee and were approved outside of the practice we described earlier in this chapter.

2.21 A report completed for the Halifax Regional School Board in 2010 indicated there was no need for a new school in Eastern Passage, and a 2007 report went further, suggesting that one fewer high school would be feasible for the area within 10 years. Although no evidence of further consultation or detailed plan could be provided by the Department, the government announced plans for a new school in April 2012. The cost for the new school is budgeted around \$21 million and construction is to begin in the fall of 2016.

2.22 A key argument in favour of adding a new school to the area was the impact that adding a new skilled trades centre at Cole Harbour High would have on enrollment. Information provided to the Policy and Priorities Committee estimated 300-400 students outside the current school area, but within Halifax Regional School Board, would elect to enter the program. Those new students would replace the approximately 400 students that would leave Cole Harbour High to attend the new high school. Ultimately, 87 students entered the program in 2015-16 and no students were accepted into the program from outside of the school's boundaries. This appears to be due to high demand from local students and the existence of other skilled trade centres in three high schools in the region, along with an automotive program at Auburn Drive High. Therefore the program has had no impact on enrollment at Cole Harbour High. The Department was unable to provide explanation or support for its original position or estimate.



2.23 *System-wide impact of decisions* – There is no evidence to support the need for additional high school capacity in the Cole Harbour and surrounding areas, in fact the enrollment figures of local schools clearly show it is not required. Enrollments in 2015 for Cole Harbour High and Auburn Drive High, which are 1.5 kilometers apart, show the schools are just over 70% of their capacity. This figure drops below 50% when estimating the enrollment in 2018 after the new school in Eastern Passage opens.

School	Capacity	2015 Actual	2015 Utilization	2018 Estimate (including new high school*)	2018 Utilization
Cole Harbour High	1032	835	81%	325	31%
Auburn Drive High	1352	846	63%	854	63%
Total	2384	1681	71%	1179	49%

Source: HRSB 2016 Long-Range Outlook

* Based on 2015 enrollment in applicable grades at Eastern Passage area junior high schools

2.24 Cole Harbour High received \$12 million in funding for renovations which were completed in 2015 and the long-range plan for Auburn Drive High includes minimal concerns with building condition. Each school offers specific advantages for high school programming which the province has already invested in. Cole Harbour High has a newly built skilled trades centre and Auburn Drive High has an automotive shop. However, with a new high school in Eastern Passage, operating two large high schools so close together at less than 50% capacity would not be fiscally prudent.

2.25 There is currently no plan on how to address the underutilization of these schools. Any changes in grade configuration to increase enrollment at the high school level will create further empty space at some of the junior high and elementary schools in the area. A school review of the Cole Harbour High and/or Auburn Drive High family of schools was only approved by the school board in September of 2016. If the new school proceeds, the Board will need to consider various options including consolidation of high schools in the area along with probable closures of some local elementary schools as the system is adjusted to reflect the new and unnecessary capacity.

2.26 School capital planning decisions should be made based on sufficient, reasonable, and supportable analysis which considers the impact of the decision on the school system as a whole. No one at the Department could tell us what led to the desire for a new Eastern Passage High School, but the evidence provided prior to that decision consistently showed it was not necessary. No consideration was given to the impact a new school in Eastern Passage would have on schools in the surrounding area. The school board will now have to make difficult decisions regarding the future of multiple



schools at all levels across the region to avoid redundant space rather than focusing on other areas in need of attention. On a provincial level, decisions such as this reduce the funding available for all other projects and reduce the Department's ability to meet the needs of all students. No one in government can appropriately explain why this school is being built.

- 2.27 Due to the timing of the construction process, the Auditor General discussed this issue with the Deputy Minister of Education and Early Childhood Development in early September 2016 to ensure the government was aware of our concerns prior to proceeding with a construction contract. While the contract has been signed, we believe this decision should be reviewed to ensure the right approach is being taken for all students.

Recommendation 2.3

The Department of Education and Early Childhood Development should review the decision to build a new high school in Eastern Passage and its impact on the surrounding schools.

Department of Education and Early Childhood Education Response: The department does not agree with this recommendation. The current government is honoring the school capital construction commitments made by the previous government. The Halifax Regional School Board has begun a school review process for the Cole Harbour and Auburn families of schools. The process will encourage dialogue with the school communities to ensure the best outcomes are achieved for students in these areas.

Recommendation 2.4

The Department of Education and Early Childhood Development should establish and follow a consistent and clear process for evaluating capital project requests to support long-term capital planning. All new school and renovation projects should follow this process.

Department of Education and Early Childhood Education Response: The department agrees that improvements can be made to the capital planning process and documentation to increase accountability and transparency. The department has initiated discussions with the Department of Transportation and Infrastructure Renewal and school board operations directors to identify the key components of a revised school capital planning process. School boards will be required to submit business cases, considering project scope, timeframes, and arrangements for continuity of operations. Regional fairness will continue to be part of the process by government.

School boards are responsible for identifying school capital needs. The process for school capital planning, therefore, relies heavily on information provided by



elected boards. This information supports the principle of regional fairness in this decision-making.

The process also requires internal analysis from within government.

The provincial government then makes decisions on all available information.

► School capital projects approved without justification

2.28 The approved Government of Nova Scotia 2014-15 capital plan included four projects requested by local school boards which had been ranked much lower by the School Capital Construction Committee or by the Tangible Capital Asset Committee than other projects not included in the capital plan. The committees had concerns about these projects, including inadequate investigation of alternative options and less expensive options which had been ignored. In the cases of the new school construction projects in Bridgetown and Tatamagouche, assessments by the committees concluded that more consideration of possible renovations, or other options within the region, was needed. The Wolfville school evaluation included discussion of a less expensive alternative that should have been considered. Instead, government selected the more expensive option requested by the school board.

2.29 There is no evidence to support why these projects were approved ahead of other projects ranked higher by the evaluating committees, but not approved. We audited the work of the public service, but understand the ultimate decisions are the authority of Executive Council and we do not audit that part of the process. Therefore, we are lost to understand why these schools were approved given the analysis provided to us. The four school projects approved and included in government's capital plan which had been ranked much lower by the evaluating committees are shown in the table below.

School Capital Project	Type of Project	Approved Funding	TCA Committee Project Ranking (top 10 projects approved)
Bridgetown P-12	New School Construction	\$23,920,000	26
Tatamagouche P-12	New School Construction	\$21,570,000	28
Wolfville	Major Renovation	\$14,500,000	21
École acadienne de Truro	Major Renovation	\$2,500,000	19

► Public-private partnership school decisions not addressed in a timely or adequate manner

2.30 There are 39 schools across the province which are under a public-private partnership (P3) agreement and all have leases coming to an end within the next five years. Advance notification on the Province's intent to purchase,



renew the lease, or return the schools to the private service providers is required. Notification deadlines were negotiated in the original leases in 1998 and 1999, therefore the Department of Education and Early Childhood Development had at least 17 years to take action in preparing for these decisions.

Calendar Year	Notifications Due
2016	31
2017	6
2018	2

- 2.31 The Province has spent roughly \$700 million on P3 lease payments over the 20-year term for these schools and would have to pay upwards of \$200 million to purchase them all. Despite knowing the precise timelines required for these decisions, the Department has failed to fulfill its responsibility to the taxpayers and has not taken the necessary steps to make appropriate and timely decisions with respect to those schools with 2016 notification dates. Instead they have delayed to the point where school boards are rushed to make their choices and the Province is forced into a weaker negotiating position with the private service providers, thereby costing tax payers an unknown further amount to obtain the necessary delays and extensions.
- 2.32 There are two main components to these decisions: first is whether the school is needed, and if so, whether it is in the best interest of the province to lease or buy the school. It is important to note that our audit work covered a period up to June 1, 2016. Work on these decisions was ongoing at that time and we requested all information prepared by the Department up to that time. Any comments on content of the government's analysis included below are based on what they had done up until that date.
- 2.33 The responsibility for closure decisions is assigned to the school boards; meaning the first decision point is their responsibility. For those schools with notification dates in 2016, the Department sent letters in December 2015, requesting each board inform the Department 30 days in advance of the notification date whether they need each school. The provincial school review policy requires any school closure or consolidation efforts undergo a defined review process completed by the board. This process can take, on average, seven to nine months. The first eight schools had notification dates in June or July 2016, giving school boards less than six months' notice to complete a school review process. This is not sufficient time for school boards to complete a provincially-mandated review process, does not show appropriate concern for public funds, and is another indication of the lack of attention to capital planning within the Department.
- 2.34 While we noted some boards made decisions in the required time, some of these were decisions that the school was still needed and therefore did not



require a detailed review, while at least one board had started the process months in advance of being asked. One school board did not meet the deadline for the notifications due in June 2016, while another has already notified the Department they will not be initiating a school review prior to the November 2016 notification date. This leaves the Department unable to provide notification to the developers and requires negotiation of extensions. This is another example of the lack of attention to capital planning and the disjointed approach currently in place.

- 2.35 Once a school board decides it wants to keep a P3 school, the Department has to decide whether to lease or buy the school outright. There are many factors that should go into that decision, including the expected population in the area, the costs of leasing compared to buying, and any maintenance or operating costs that may be cheaper or more expensive depending on whether the Province is doing it themselves or are paying the private developer to do it as part of a lease.
- 2.36 As was evidenced by the timing of the request to school boards regarding the need for the school buildings, we found the Department's process was completely inadequate; it was both late and disjointed. There were various starts and stops in preparing an analysis of options, including work done by staff at the Department of Finance and Treasury Board. Ultimately, we were not provided any documented final decisions on the various schools, but did identify a number of concerns in the analysis we were given. As noted, these concerns relate to the approach taken and analysis prepared by government up to June 1, 2016.
- Operating expenses were not considered. The analysis was completed using an assumption that these would be the same whether the school is operated by the school board or service provider. Our 2010 audit of P3 schools noted that two developers were paid by the Province to deliver operating and maintenance services but subsequently subcontracted this work back to school boards for far less than the Province had paid. This resulted in a profit for the service provider of \$52 million over the length of the original 20-year lease. This shows that further consideration of operating and maintenance expenses are a key factor in the buy versus lease analysis.
 - The analysis focused on a 30-year lease term. The assumption is that the Province will continue leasing the school until the end of its life expectancy, without considering projected enrollments. Some schools may only be required for another 10 or 15 years, but when only a 30-year lease is considered the costs will likely suggest buying as the most economical option.
 - No proposed lease rates had been obtained from one developer, therefore no buy versus lease analysis could be performed for those



schools. It is unclear how the Department is going to make informed decisions for these schools.

2.37 The Department is creating a situation in which decisions are made without proper analysis. If the information used in completing the assessments is not accurate, complete, and supportable, the recommendations may not be reasonable or in the best interest of the Province. As this process is still underway, it is important the Department conduct a thorough analysis to obtain the best result for the Province as a whole.

Recommendation 2.5

The Department of Education and Early Childhood Development should immediately develop and implement a process to assess future P3 decisions that provides sufficient time for all parties to make decisions and incorporates a full assessment of factors including:

- the cost of operating and maintaining schools;
- projected enrollment in the school area to assess the length of time a school will be needed; and,
- actual future lease rates provided by the developer.

***Department of Education and Early Childhood Education Response:** The department agrees with this recommendation; a process is in place to assess P3 decisions. School boards determine their school needs, as defined in the Education Act. Treasury and Policy Board conducts extensive financial analysis.*

In terms of timelines, in 2014, government required school boards to develop 10-year long-term regional outlooks. Government invested in planning software to enable boards to complete reliable enrolment projections.

Once the long-range plans were complete, the department asked boards what schools they needed. Some responded with requests outside the current contract. In some cases, this led to extension requests to allow boards to consult further with their communities. Extensions cost \$1.5 million, 0.0065 per cent of the \$230 million P3 budget.

Financial analysis could not begin until developers provided base lease rates. Based on the service agreements, developers are not required to provide these rates until a timeframe (12 or 18 months, depending on the agreement) prior to the notification dates.



Department of Education and Early Childhood Development: Additional Comments

The Education Act places responsibility for management of schools with school boards, and relies on community input on school needs through elected board members. Government also values the principle of regional fairness in decision-making, as part of all information considered in capital planning.

The current P3 process involves extensive financial analysis and school board decisions on school needs.

School boards had to determine their school needs at the right time, so plans reflect the age and condition of schools, and current and projected demographics. The current government initiated and supported a long-term planning process in 2014.