



## **The State of Education in British Columbia**

**SCHOOL FINANCE POLICY IN BRITISH COLUMBIA  
1980 - 2015**

**The Emergence of Market-Driven Funding Mechanisms**

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*The State of Education in British Columbia is a collection of essays written by IPE/BC Fellows that provide a historical, contextualized view of the current state of public education in British Columbia. These short, accessible essays cover a range of topics such as school finance, educational politics, curriculum, assessment, technology, special education, indigenous education and more.*

## 2 School Finance Policy in BC

Within the Canadian context, government grants from general revenue supplement local school taxes, and together, these two sources are the foundation for education finance in the provincial school system. While this is the general rule across Canada, education finance policy has evolved differently in each province and thus there are variations in funding mechanisms in each province. This article provides a brief history of public school finance policy in British Columbia from 1980 to 2015 that contextualizes the emergence of market-driven funding mechanisms that have been in use since 2002.

To construct this finance policy history, primary documents were consulted, including research reports, background papers, Royal Commission reports and other government reports, discussion papers from government and stakeholder groups, and legislation. Particular attention was given to Bill 34, which amended the *BC School Act* in 2002 and introduced a new market-driven funding mechanism, which will be described later in this paper.

### **Education Finance Policy Prior to 1980**

Prior to 1980, with the exception of periods of stagnation influenced by economic downturns and two world wars, the public school system grew at a rapid pace. This growth was spurred by increased enrolment due to immigration (primarily from other provinces, the United States, and Europe) and a post-WWII baby boom, as well as by a broadening array of school programs and services that grew out of the progressive movement and the social movements of the 1960s and 1970s. Growth in the school system was accompanied by rapid growth in education expenditures and a trend toward increasing centralization of education finance.

In 1968 government revised the funding program to distinguish between expenditures necessary to provide for the basic education program and expenditures for programs over and above the base (British Columbia Teachers' Federation, 1989; Fleming & Anderson, 1984). Basic education was defined in financial, not educational, terms. The provincial grant for basic education amounted to the board's previous year's total operating expenditures. Should a school district wish to provide educational programming over and above what the basic program grant funded, the district was authorized to levy an additional school tax above the standard rate. In this way, the funding mechanism provided for a degree of local autonomy. However, those additional expenditures a board chose to incur in a given year became part of its total operating costs and were then included in the calculation of the basic education grant for the following year. In this manner, the provincial government essentially absorbed the cost of increased spending by local boards in subsequent years. Essentially, school

boards could pass increased costs on to the provincial government—a system that Fleming and Anderson (1984, p. 33) argue enabled school board to avoid fiscal accountability, a process they describe as “automatic indexing to reflect and maintain the cost of the *status-quo*” (emphasis included). This mechanism, coupled with other factors such as soaring inflation, and new expenditures to reduce the pupil-teacher ratio, contributed to rapidly rising expenditures on education.

Following their re-election in 1975, the Social Credit government responded to lobbying by private schools and passed the *Independent School Support Act, 1977*, which provided financial support to B.C.’s private schools for the first time, thus adding to the financial burden of the province. Provincial expenditure continued to grow and by 1982 government had assumed 75% of the financial burden for school finance (British Columbia Teachers’ Federation, 1983; Province of British Columbia, 1988a).

### **Education Finance Policy 1980 – 1990: The Fiscal Framework**

A recession in the early 1980s prompted government to usher in fiscal restraints that included deep cuts to social programs and wage controls in the public sector. In 1982 and 1983, government established reduction targets for school board operating expenditures (British Columbia Teachers’ Federation, 1983, 1984, 1985, 1986, 1989; Legislative Assembly of British Columbia, 1982; Amendments 1983, 1984, 1985, 1986) and eliminated the ability of school boards to tax non-residential (business) properties for operational purposes (British Columbia Teachers’ Federation, 1989). Throughout the 1980s, business taxes fell, whereas residential property taxes continued to rise, despite provincial grants to homeowners that provided some relief (Malcolmson, 1993).

In 1983 government introduced a new finance mechanism, called the Fiscal Framework, which emphasized efficiency, equity, transparency, and school board accountability. The Fiscal Framework broke education expenditures into functions: instruction, special programs, administration and support services, operations and maintenance, auxiliary services, transportation and housing, non-shareable capital expenditures, and debt service. Government set financial targets each year as a means to control overall costs. School boards had freedom to decide on the amount of funding spent on specific programs, but always within the parameters of the Fiscal Framework. School boards needed to produce balanced budgets and financial statements accounting for how funds were used. Under this system, local school boards would receive at least 60% and up to 95% of budgeted expenses, depending on the capacity of the board to raise local taxes (Fleming & Anderson, 1984, p. 34), thus attempting to address the issue of equity in terms of taxation capacity.

Fiscal restraint led to reductions in programming, a rise in the pupil-teacher ratio, and deteriorating working conditions for teachers (Jacobson & Kuehn, 1986). Throughout the 1980s, schools began to rely more heavily on fundraising and school-based fees, as well as on parent volunteerism (Jacobson & Kuehn, 1986; Province of British Columbia, 1993; Salloum, 1984). Reacting to the fiscal restraint measures, teachers were militant during the 1980s and it was a fractious period in B.C. education (Killian, 2010). Many parents enrolled their children in private schools. Private school enrolment increased by 59% between 1978 and 1985, while public school enrolment fell by 8%; by 1986 private schools enrolled close to 6% of the province's students (Jacobson & Kuehn, 1986, p. 89).

### **Education Finance Policy 1990-2000: Block Funding**

One of the few remaining vestiges of the Royal Commission on Education established in 1987 (Montmarquette, 1990; Sullivan, 1988) is the movement to Block Funding. Implemented in 1990, Block Funding was intended to provide greater stability and predictability in school funding levels. This funding mechanism operated as follows:

Each year, the ministry responsible for education establishes a provincial per pupil dollar amount that is then multiplied by the projected number of students to determine the Total Estimated Provincial Funding Allocation. This global amount is then assigned to districts using the Funding Allocation System, which uses factors such as the individual district's enrolment, and specific factors that apply to each school district. (Krieger & McMurphy, 1998, p. 4).

Special factors that might impact the cost of delivering education in a particular district include: secondary education; number, age, and sizes of schools; and transportation. Since total grants to school districts were calculated according to enrolment projections, this system resulted in challenges for school districts related to the predictability of government funding. If enrolment in a specific school district was lower than projected, it meant a smaller than expected grant from government, and the district had to struggle to balance their budget with short notice. However, Block Funding meant that government achieved centralized control over total provincial expenditures on education. While stability of funding was achieved, predictability of funding remained a problem from year to year.

By 1991 the Social Credit Party had collapsed and the New Democratic Party formed government. The new government faced significant financial challenges. A number of school boards in the province faced budget shortfalls in the 1991-1992 budget year. Parents and teachers raised concerns about inequities created by increased levels of fundraising within school districts (Province of British Columbia 1993). Residential taxpayers

felt overburdened and resisted increased school taxes. In an attempt to restore some balance in the taxation system, government raised non-residential (business) property taxes in 1992—the first increase in over a decade (Malcolmson, 1993).

The Education Funding Review Panel in 1992 (Spangelo, 1992) recommended one of two approaches to local funding: Either give school boards authority to levy school taxes; or allow for local flexibility within a provincial funding formula. Government adopted the latter proposal: Retaining centralization of the funding formula, while enabling school boards to levy additional school taxes, albeit only through referenda, an option which school boards have been reluctant to implement.

Dramatic demographic shifts occurred in B.C. throughout the 1990s. Chinese immigration increased significantly as the clock ticked down to the return of Hong Kong to China in 1997. There were also increasing numbers of immigrants from Mainland China, South Asia and Southeast Asia, and from Eastern Europe and the Baltic states. Schools struggled with rising enrolment, increased cultural and linguistic diversity, mandated inclusion of special needs children in the regular classroom, and integration of technology in instruction—all of which demanded new programs or services and intensified the work of educators. Teachers attempted to recoup, through local collective bargaining, some of what they lost in terms of salaries and working conditions during the fiscal restraints of the 1980s. The cost of education continued to rise, however enrolment-based Block Funding failed to keep pace with new program demands and inflationary costs (Krieger & McMurphy, 1998). In 1994 the government amalgamated school districts and initiated province-wide collective bargaining, measures that were intended, in part, to help control the escalating cost of education (Fleming & Hutton 1997).

In summary, a decade of aggressive fiscal restraint under the Social Credit government of the 1980s, followed by the more moderate fiscal restraint measures of the New Democratic government of the 1990s, set the stage for the new millennium. At that point, there had been 20 years of fiscal restraint characterized by the discourse of balanced budgets and decreased spending, coupled with an emphasis on tax reduction. This discourse, although consistent with globalized neo-liberal ideology, was never framed as such, except by labour unions and a few individuals whose concerns were marginalized in the market of ideas. This history set the stage for the election of the Liberal Party and the introduction of market-driven funding mechanisms involving both public and private revenues.

## **The emergence of market-driven funding mechanisms in 2002: Centralized Fiscal Control and Local Flexibility**

In 2001 a Liberal government was elected based on a neo-liberal campaign platform that emphasized economic prosperity, efficiency, and accountability associated with discourses of decentralization, deficit reduction, lower taxes, deregulation, and the creation of a business climate conducive to economic growth (Fallon & Paquette, 2008). The Liberal election campaign platform, *A New Era for British Columbia: A vision for Hope & Prosperity for the Decade and Beyond* (BC Liberals, 2001), promoted the reformation of government to maximize commitment to innovation, flexibility, competitiveness, and prosperity in order for the province “to have the leading economy in the country, with the highest levels of private sector investment anywhere” (B.C. Liberals, 2001, p. 2). The Liberal platform laid the foundation for policy changes in the provision of public education that, allegedly, would result in better and more efficient and responsive public schools and lower taxes (B.C. Liberals, 2001). These proposed changes were aimed at remaking the public education system in a form that was understood as appropriate for meeting the demands of the globalizing knowledge-based economy.

Following its election, the Liberal government redesigned the fiscal landscape of the province by reducing corporate and income taxes and cutting or freezing spending in government departments. Income taxes were slashed by 25% across all income levels, followed by further reductions in 2005 and 2007 for the lowest tax brackets (Poole, 2007). With respect to K-12 education, government announced a two-year freeze on grants to school boards, starting in 2002 (British Columbia School Trustees Association, 2002; Poole, 2007). In the same year the Ministry announced a revision to Block Funding that resulted in fewer categorical functions, and the application of the per-student funding formula to more of those functions (British Columbia Ministry of Education, 2002a). Under this formula, a greater share of provincial operating grants to school districts was determined by student enrolment (Beresford & Fussell, 2009). Decisions related to total provincial expenditures and allocation of grants to school districts remained centralized (Karlsen, 2000).

Against this backdrop, the government established a Select Standing Committee on Education (SSCE) in 2001 and gave it a mandate to conduct public consultations and make recommendations to improve access, choice, flexibility, and quality in public education. The terms of reference asked the SSCE to address issues related to decreasing enrolment, local autonomy, efficiency and accountability, parental choice, and responsiveness of the public system (The Legislative Assembly of British Columbia, October 16, 2001).

Following a series of public consultations across BC, the SSCE tabled a report on March 29<sup>th</sup> 2002 entitled: *A Future for Learners: A Vision for Renewal of Education in British Columbia* (British Columbia Ministry of Education 2002b). The report recommended a choice-driven public school system emphasizing competition between school districts and schools and assumed that such a solution would revitalize schools in terms of responsiveness, accountability, and productivity. Following the publication of the SSCE Report, the legislature passed the *School Amendment Act* (The Legislative Assembly of British Columbia, 2002), which had two important outcomes:

- 1. School catchment areas were opened, thus enhancing parents' ability to choose schools. The enrolment-driven Block Funding mechanism introduced in 1990, coupled with the policy of school choice, increased school competition to attract students and maintain or increase their level of public funding. Schools began to create programs of choice as a marketing strategy to increase enrolment. In this manner, enrolment-driven Block Funding evolved into a market-driven public funding mechanism.*
- 2. A unique feature of the amended Act was the formal transfer to school districts of partial responsibility for funding public education. The Act enabled school districts to establish for-profit companies (school district business companies) that would operate at arm's length and engage in entrepreneurial activities for the purpose of generating revenue from private sources. The Act gave rise to a market-driven private funding mechanism.*

Since 2002, therefore, two forms of market-driven funding mechanisms have been operating in the province of British Columbia. Outcomes of the Act have included the proliferation of new programs of choice in public schools, such as Montessori programs, Mandarin programs, sports academies, International Baccalaureate programs, and schools within schools. Through their business companies, several school districts have experimented with the creation of offshore schools, although most of these have now been abandoned. Recruitment of tuition-paying international students has become the most prevalent form of private revenue generation

for school districts with some districts generating up to \$15 million dollars each year in supplementary income (Poole & Fallon, 2015).

The *School Amendment Act* of 2002 represents an important juncture in the history of school finance in British Columbia and in Canada. For the first time in the history of school finance, school districts have been enabled and encouraged to behave like incorporated business entities. B.C. policy-makers claim that giving school districts the ability to generate revenue by engaging in entrepreneurial activities would enhance their freedom and financial flexibility to better meet local educational needs (British Columbia Ministry of Education, 2002a). The government has sent a clear message to school districts that they must become less dependent upon government to provide funding over and above what it defines as the basic educational program for the province. If school districts desire or require additional funding to support local educational initiatives, they will need to rely on alternative sources.

As of 2002 school districts have two choices for raising funds in addition to government's enrolment-based grant: (1) school districts may hold a local referendum to increase property taxes; or (2) they may engage in entrepreneurial activities to generate revenue from private sources. Local school districts have not taken advantage of referenda, which may not be surprising given the challenges of convincing local taxpayers that higher property taxes are justified. The only remaining option is to engage in entrepreneurial revenue generation.

School districts have been prodded in the direction of entrepreneurial revenue generation, signaling a rupture of the historical social contract on education funding. The taken-for-granted assumption that public schools would be funded by public sources—government grants and local property taxes—has been disrupted. Government has set a new direction in education finance in BC education – one in which public schools will become increasingly self-reliant. Concerns have been raised about an increasing structural funding shortfall (Malcolmson, 2010), creeping privatization, the eclipse of equity by efficiency (Fallon & Poole, 2013), and increasing stratification of the provincial education system (Poole & Fallon, 2015). At this moment in the history of public school finance in British Columbia, the impacts market-driven funding mechanisms and its sustainability are unclear.



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