

# K-12 Public Education Accumulated Operating Surplus Policy

## Policy Statement

The *School Act* requires boards of education (boards) to prepare a balanced annual budget. Estimated spending in the annual budget must not exceed estimated revenue plus accumulated operating surplus (operating surplus). Operating surplus, with consistent rules and guidelines in place, enables boards to engage in long-term planning, mitigate financial risk and support consistent service to all students in the province.

## Purpose of This Policy

The provincial Accumulated Operating Surplus Policy (Policy) provides guidelines and resources for boards to ensure a clear, transparent understanding of the reasonable accumulation and planned use of operating surplus. It also allows boards to restrict portions of their operating surplus for future use to address board priorities (see [Ministry Capital Plan Instructions](#) and [Ministry Financial Statement Instructions](#)).

The Policy includes a Companion Guide (CG) that defines terms used in the Policy and resources to help boards implement the Policy.

## The Policy

This Policy outlines specific circumstances in which boards can restrict operating surplus, transfer available operating surplus to Local Capital and the limits of these restrictions.

[The Framework for Enhancing Student Learning](#) (Framework) directs boards to develop and implement multi-year strategic plans that are aimed at improving educational outcomes for students. The [Financial Planning and Reporting Policy](#) directs boards to develop multi-year financial plans that identify how resources and operational funding will support their strategic plans.

Boards' financial plans and budgets, including the use of operating surplus, should clearly identify how they support strategic plans and other operational priorities of the school district. Boards must follow the guidelines and rules prescribed in the [Accounting Practices Order](#) and the [School Act](#) that describe the conditions under which surplus can be accumulated, restricted, used and transferred.

## How to Comply With the Policy

### *Local Board Policy Required*

To demonstrate accountable and transparent financial planning, boards will develop, maintain and make publicly available a local policy with procedures that guide the accumulation, spending and reporting of operating surplus funds and the boards' engagement with their local

community and education-partner groups, including local First Nations and Métis Nation BC, on the topic. To do this, board policy will:

1. clearly explain the purpose of operating surplus, and how the surplus will be used to support the boards' strategic objectives (i.e., improve student educational outcomes) and other operational priorities of school districts;
2. include guidelines on how inter-fund transfers will be managed; and
3. outline how financial risk will be mitigated by establishing a contingency operating surplus.

Boards should read the CG for further details and to see an example of a local policy that boards can use to develop and implement their policy.

### *Internally Restricted Operating Surplus*

To support long-term financial planning boards can restrict operating surplus for use in future years within ministry-specified guidelines (see CG). To increase transparency, every appropriation requires a board motion. It is appropriate for some motions to be made in a closed board meeting (i.e., related to land, legal or personnel matters) but the default should always be to a public meeting motion whenever possible.

Restrictions can be made for items that are identified by the board, have defined timelines, are directly related to board's goals outlined in their strategic, operational and financial plans, or that meet the specified needs of the school district. The three streams of internally restricted operating surplus (described in the CG) are:

- restricted due to the nature of constraints on the funds;
- restricted for anticipated unusual expenses identified by the board; and
- restricted for operations spanning multiple school years.

### *Unrestricted Operating Surplus (Contingency)*

To support effective planning, that includes risk mitigation strategies, boards should consider maintaining a reasonable amount of unrestricted operating surplus. Boards may require emergency funds from time to time or need contingency funds available for unexpected increases in expenses and/or decreases in anticipated revenues. When this occurs, boards need to have access to enough funds to continue to provide educational services and operations without making service cuts.

The amount of Unrestricted Operating Surplus, at the end of a fiscal year, should be laid out in the Board's Operating Surplus Policy, in accordance with ministry instructions (i.e., [Ministry Financial Statement Instructions](#)).

### *Restricted for Future Capital Cost Sharing*

To support major capital projects that are identified in the boards' 5-year Capital Plans, and approved by the ministry for concept plan or business case development, boards may restrict operating surplus to satisfy capital project cost share expectations at the time the project is brought forward for funding approval. Capital cost share expectations can be found within the [Capital Planning Instructions](#).

### *Local Capital*

Local Capital includes the board's portion of any proceeds from the disposition of capital assets, transfers from operating funds and interest earned on Local Capital funds restricted for the purchase of tangible capital assets. Transfers from operating funds to Local Capital must be made only for specific initiatives that have a clear linkage to boards' strategic goals, or that address capital assets investment, or that meet the specified needs of the school district.

If these transferred funds are not linked to strategic goals, or they have not been used within the timelines identified for the relevant initiative, the ministry may require boards to use these Local Capital funds for other capital project priorities.

### *Ministry Oversight*

The ministry may request boards to provide evidence that public reporting on how and why funds were restricted (i.e., approved Board Motion) was completed. Boards are also required to provide the ministry with an annual report on their budget allocation decisions, (including operating surplus and Local Capital), demonstrating that approved allocations support boards' strategic objectives.

To help boards build capacity in their operating surplus planning, spending and reporting processes the ministry may take actions to monitor and evaluate operating surplus as outlined in the CG.

## Policy Alignment

- [Financial Governance and Accountability - BC School Districts](#)
- [The Framework for Enhancing Student Learning](#)
- [K-12 Financial Planning and Reporting Policy](#)
- [Financial Health and Other Questions Toolkit](#)
- [Taxpayer Accountability Principles](#)
- [Audit Committees Toolkit](#)

## Authority for the Policy

- [School Act](#), s.81, s.156, s. 157, s.157.1
- [Accounting Practices Order](#)

## Information and Resources

- Companion Guide to the Policy
- [Ministry Financial Statement Instructions](#)