



# “If we had 300 Million Dollars”: Funding for Reserve Schools<sup>1</sup>

By Barry Anderson and John Richards

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The 2016/17 federal budget promised an increase in operating expenditures for on-reserve students in excess of \$300 million. This amounts to a per student increase of nearly 20 percent relative to the previous fiscal year<sup>2</sup> (See Box 1) and comes at a time when greater funding is urgently needed.

The former government agreed to an increase in operating expenditures of similar magnitude in the 2014/15 budget (Finance 2014, 76). However, when its agreement with the Assembly of First Nations collapsed, the government withdrew the accompanying legislation (Bill C33) and the promised increase in spending. Skepticism among First Nation leaders about the 2014 agreement was increased by lack of specific information about how Indigenous and Northern Affairs Canada (INAC) intended to disburse the additional funds to individual First Nations.

The present administration of education and supplementary program financing is complex and difficult for both First Nations and INAC to navigate. Several methods are used to calculate funding for reserve schools. In some cases, INAC uses a national formula; in others education funding is folded into multi-year agreements that include other programs and services. In addition, INAC supplements basic education services with proposal-driven programs, such as early childhood and special education. In the face of this complexity, the question of how INAC should allocate the large increase promised in the 2016/17 budget becomes important.

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1 With apologies to Bare Naked Ladies.

2 In addition to extra school operating expenditures, the budget also provides for an increase of \$97 million devoted to new schools and upgrading of existing schools.

### Box 1: What INAC spends on K-12 Education for Reserve Children

INAC Kindergarten – Grade 12 Operating Expenditures <sup>a</sup> (\$millions)	On-reserve Students Attending K-12 Classes <sup>b</sup> (count)	INAC Operating Expenditures per Student (\$)	Increase in Annual Operating Expenditures (\$millions)	Increase in Annual per Student Expenditure (\$)
2014/15	1,447.2	105,540	13,712	—
2015/16	1,487.2	107,651	13,815	40.0
2016/17	1,804.1	109,804	16,430	316.9

Notes:

a. The source of the 2014/15 INAC K-12 operating expenditures is the 2014/15 *Departmental Performance Report* (INAC 2016). It is an inclusive measure, including both on-reserve schools and payments to provinces for on-reserve students attending provincial schools, relevant INAC administrative overhead and various related programs, but excludes capital investment in new schools and certain other items. The “operating expenditures overview” methodology generates an annual per student expenditure approximately \$1,600 higher than the \$13,712 per student figure shown for 2014/15. The 2015 budget (Finance 2015, 294) refers to an increase of \$200 million over five years, commencing in fiscal 2015/16 (i.e., an increase of \$40 million in 2015/16). The 2016 budget (Finance 2016, 141) promises an increase of \$316.9 million in 2016/17.

b. The 2013/14 count of First Nation on-reserve students attending K-12 schools either on- or off-reserve is 103,471 (INAC 2016). The counts for subsequent years assume a 2 percent annual increase relative to the 2013/14 count.

Given the extent of reserve education needs and the urgency of reform, INAC should get the money to First Nations quickly, so that it can be used effectively in the upcoming current school year while forming a sound basis for future planning and development. The possibility of wasteful, one-time, spending in the 2016-2017 school year rises quickly as time passes. Staffing decisions for the 2016/17 school year are already underway and in a few short weeks, new money will arrive too late to enable schools to plan for the upcoming school year.

### The Problem

In most cases, past funding levels for reserve schools have not met the needs of modern schools. In addition, the complicated methods by which funds are distributed contribute to the widespread ineffectiveness of reserve schools and to the misallocation of funds intended for education.<sup>3</sup>

In addition to generating an excess of administrative complexity, the current funding arrangements have far too little connection to fundamental education goals. While INAC

3 Funding is allocated by a mixture of complex regional funding formulas, proposal-driven funding and multi-year renewable agreements (each of which has to be renegotiated at some point, and many of which have been rolled over to maintain funding in the face of disagreements between First Nations and INAC). One multi-year agreement of which we are aware contains funds for a school that no longer operates.

is not in the business of managing schools, it can and should use its funding to “nudge”<sup>4</sup> schools towards strategies that are likely to ensure students gain the knowledge, skills and attitudes needed to participate in a modern economy. Funding arrangements can also encourage First Nations communities to become more active participants in reserve schools.

The performance of many reserve schools is very poor.<sup>5</sup> First Nations are, in general, well aware of this, and most leaders want to do something about it. An important obstacle to reform is INAC’s control over key administrative rules (such as who is eligible to be funded as a student) and funding arrangements, which make it difficult for First Nations to assume control over school affairs. While provincial education ministries are far from perfect, some of their conventions in funding school boards and independent schools offer useful lessons.

As a rough rule, INAC should fund what it and First Nations want to attain. This is not simple since neither INAC nor First Nations have stated clearly what outcomes they seek for students. In the absence of specific goals, the education discussion has become a discussion about money, processes, and control.

### **What Might INAC and First Nations Do with \$300 Million?**

While INAC does not manage band operated schools and its ability to intervene is limited, it can establish basic rules for distributing education funds. In doing this it could facilitate school improvements by directing some of the incremental operating revenue to mutually desired outcomes. This amounts to “nudging.” As we wrote in a recent monograph earlier this year:

...given expansive legal interpretation of treaty rights over the last generation and current political convention, the ability of INAC to intervene [in reserve schools] is

limited .... Despite this, government can work with chiefs and bands to nudge reserve schools toward improving student achievement in the core academic subjects of reading, mathematics and science, as well as in Aboriginal languages and cultural studies (Anderson and Richards 2016, 3).

What follows are three things we would do “if we had \$300 million.”

#### ***Get the Money Out the Door***

Annual school operations overlap two fiscal years of the federal government. The 2016/17 school year starts in September. Long before this, in May and June, schools hire staff, buy books and supplies and plan major maintenance on facilities.

Given the recent period of underfunding, the majority of new funding is needed to improve basic funding for nearly all schools. Two components need immediate attention: proper funding for the tuition and costs of students attending off-reserve schools; and an improved funding formula for reserve schools. These two steps would likely consume much, if not all, of the additional \$300 million.

#### ***Improve and Simplify the Funding Formula***

Across Canada, there exist approximately 500 on-reserve schools (Richards and Scott 2009). What is required is that INAC put in place a resource-cost funding formula that covers all major services to be delivered by these schools. INAC should undertake this task on an urgent basis – no later than the end of July – realizing that any formula can be improved by ongoing amendments in subsequent years.

Given the 20 percent budgeted increase in total operation spending, nearly every school should receive more funding under a new formula. This should facilitate support for the formula from the chiefs. Nonetheless, disagreements will

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<sup>4</sup> This use of the term “nudge” comes from the book by Thaler and Sunstein (2009). It is an excellent discussion of how to improve the results of complex systems.

<sup>5</sup> For evidence on high-school completion among young First Nation adults across Canada, see Anderson and Richards (2016).

inevitably arise, not the least of which will be the charge of inadequate consultation.

Comprehensive consultation takes a great deal of time. Hence, INAC faces an unavoidable dilemma: consult before acting, thereby delaying new funding by at least a year and probably more, or implement an improved funding formula now and use ongoing consultation in subsequent years to shape and improve the formula.

A formula that deals with major variables such as the size and composition of the student body, school size and location, and regional cost differences can be implemented quickly. For the next school year, it could reflect the level and cost of services such as pupil-teacher ratios, administration, building operating costs and transportation. As a start, the level of service provided should be at least comparable to those provided to similar students in similar provincial schools. To simplify the system and reduce administration costs to bands, all existing proposal-based programs should be rolled into the new formula, save those that are piloting new approaches.

Over time, the formula should regularly:

- (a) Update cost factors applied to each component.
- (b) Reconsider service levels (for example, should the pupil/teacher ratio rise or fall?).
- (c) Reconsider unfunded services (for example, should the budget provide for student trips out of remote locations?).

Who should undertake the revisions? Since the dynamics will differ across Canada, this is a task that is probably best undertaken at the INAC regional level.<sup>6</sup>

### **Fund academic improvement**

Each year, a small amount of funding (perhaps five percent) should be provided to schools that improve the academic performance of their students.

The logic here is not to search for a “silver bullet” that immediately closes the gap between actual and ideal school performance, instead it is to “nudge” schools to pursue incremental improvements. The measures included in this program (preferably under 10) should be SMART (specific, measurable, achievable, relevant and timely), such as performance on core academic subjects, completion rates, and Aboriginal language competence.

In year one, these funds should be distributed on a per pupil basis to all schools containing students ages 10 (about grade 4), 13 (about grade 7), 16 (about grade ten and minimum school-leaving age in most jurisdictions), and graduation year (usually 18, but often 2 – 3 years later). In the second and subsequent years, funds would be directed towards schools that had improved their performance over the previous year.

In any school there are natural limits to improvement. Few schools are able to improve every year. And, once a school has reached the maximum incremental top up, no further funding via this route would need to be available to the school.

There are three important by-products of attaching some funds to improvement. First, achievement would become a more important topic in schools. Second, in order to obtain access to funding, schools would have to define and report measures of achievement against which improvement could be judged.<sup>7</sup> Third, First Nations could add cultural outcomes they deem important (such as mastery of indigenous languages).

Who should decide the nature of the “nudging”? A possible candidate is contained in the proposal, within Bill C33, of a Joint Council of Education Professionals (Anderson and Richards 2016, 22). The legislative intent was that this council evolve over time as a source of First Nation-led professional ideas on education policy. Bill C33 proposed that half its members be appointed by INAC, half by First Nations in a yet-to-be-determined manner.

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<sup>6</sup> South of 60 degree latitude, there exist seven regions: one covering Atlantic Canada plus one for each of the six provinces, Quebec to British Columbia.

<sup>7</sup> Schools might use performance measures of the relevant province, but that would be a school’s decision.

## ***Create Financial Incentives for First Nations to Participate in Funding their Schools***

First Nation bands already participate in school funding: some use own-source revenues from economic development activities; others raise funds locally from members. More financial participation by reserve residents is valuable not only because it can improve school funding, but also because it encourages active participation in school affairs.

Other things equal, First Nations participation in funding produces inequality in per student funding, as the more prosperous First Nations contribute more to their schools than do the less prosperous.

The problem of how to encourage jurisdictions to raise revenue for schools in a context of unequal fiscal capacity was acute during the Great Depression (Banicki and Murphy 2014). During the 1930s, Strayer and Haig, a pair of economists, devised a funding system intended to solve school boards' unwillingness to spend on education. The Strayer-Haig funding model was quite widely adopted in the United States and Canada and was very successful in improving school funding.

To increase financial, and more importantly, community participation in schooling, INAC could mimic Strayer-Haig approaches. Using the model, INAC would match own-source school district funding in inverse proportion to a First Nation's fiscal capacity. All but the wealthiest First Nations could thereby obtain a dollar's worth of school revenue with less than a dollar's worth of local spending. Relatively poorer First Nations would have greater incentives to contribute local funding.

A minimum level of guaranteed per student funding would be based on the average across all First Nations. As wealthy First Nations increase own-source spending, the average would move up and poorer First Nations would benefit indirectly, due to the impact on next year's average.

The additional contribution might be done on a sliding scale running from dollar-for-dollar matching in the case of small per pupil additions, to perhaps 5 percent of the contributions in the case of very large per pupil contributions.

The three steps proposed – a minimum threshold of INAC per student funding, invitation to First Nations to participate in school funding, and a matching INAC contribution – should further improve funding for most reserve schools.

Schools facing funding declines would be protected while the fit between the formula and each First Nation's situation is explored. Improved service levels, better recognition of costs or additional cost factors should resolve most discrepancies. In cases where resolution is impossible a phase-out period could be used to adjust education funding.

## **Requirements**

To implement resource-cost funding and focus on results, INAC would need to shift its attention from complex regulation of school inputs toward improving results. Such a shift is a significant change in the organization's culture.

In order to receive any increase in funding in 2016/17 over the 2015/16 fiscal year, each First Nation would:

- (a) Agree that the Chief is ultimately responsible for on-reserve progress on student attainment and for school operation. The Chief would also be responsible for successful implementation of the financial and reporting requirements. He or she may delegate authority to others but cannot delegate responsibility.
- (b) Set up segregated accounts into which all education funds would flow and from which would flow all education expenditures. Each year, audited financial statements would be published to local First Nation leadership and copies sent to INAC. INAC and First Nation leaders would agree on the framework for accounts to be used after the 2016/17 school year.
- (c) Publish reports to First Nations communities and INAC on the educational attainment of all students at ages 10, 14, 16 (school leaving in most provinces), at the completion of secondary school and at ages 20 and 25. Reports for students aged 10 and 14 would cover math and English or French attainment. Reports at age 16 would add vocational certifications held, as would reports at the completion of secondary school and ages 20 and 25.
- (d) Publish reports to band members and INAC on the attainment of language and other cultural objectives.

In clarifying responsibility and simplifying administration, INAC should collapse education-related proposal-driven funding programs into its funding system. This will enable INAC to focus its personnel resources on educational results and methods to improve them.

## Conclusion

INAC can use well-understood techniques from provincial funding of school districts and independent schools to fund First Nations education. With a sound financial base as a point

of departure, INAC could greatly increase the flexibility of band schooling by imposing fewer administrative constraints and helping bands focus their attention on improving results.

The only agency that can get this process off to a quick start is INAC. Subsequent modification of the enriched formula will require a great deal of considered collaboration between INAC and First Nations.

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