

Education Report: Further Consideration of the Closure of Turakina Māori Girls' College (194)

Executive Summary

1. This report provides you with information on the outcomes of the second round of consultation on your proposal that Turakina Māori Girls' College (TMGC) should close.
2. The second round of consultation was initiated on 13 October 2015, and was ended on 6 November. Two submissions were received by the Ministry. The first was a joint submission from the TMGC Trust Board (the Proprietor) and the Board of Trustees. The second was a submission from a parent of current students at the school who supported closure of the school.
3. The Boards' joint submission asks you to defer your final decision to close the school and to give the two Boards a further opportunity to implement their strategies to strengthen the school.
4. The submission purports to address the following concerns:
 - ensuring the safety of the property
 - the school roll and a quality curriculum for the students
 - the financial situation of the school
 - priorities in the Proprietor's strategy for change.
5. It is the Ministry's view that the critical issue remains the Proprietor's ongoing financial viability, based significantly on the Proprietor's own roll forecasts and current financial situation. Among the documents attached to the submission, were the Proprietor's financial statements for the month ended 31 October 2015. These statements do not alleviate the Ministry's serious concerns about the Proprietor's financial viability.
6. Based on the evidence and reasoning provided to you in this and previous reports, the Ministry does not consider that the Proprietor has demonstrated it is in a position to fulfil its functions and obligations that were accepted at the time of integration.
7. The Ministry recommends, therefore, that you agree to the disestablishment and closure of Turakina Māori Girls' College under section 12 of the Private Schools Conditional Integration Act 1975, the closure to take effect on 27 January 2016.

Recommendations

We recommend that you:

- a. **note** the information provided following the second round of consultation on the future of Turakina Māori Girls' College;
- b. **agree** that Turakina Māori Girls' College will close under section 12 of the Private Schools Conditional Integration Act 1975;

AGREE / DISAGREE
- c. **sign** the enclosed letters to the Board of Proprietors, the Board of Trustees and local Members of Parliament informing them of your decision; and
- d. **sign** the attached *New Zealand Gazette* notice.



Katrina Casey
Deputy Secretary
Sector Enablement and Support

Encls



Hon Hekia Parata
Minister of Education

23/11/15

With respect for the fine
tradition of this school
and those who have
passed through it, and
great address, my
decision is to close
Turakina Māori Girls College.
Nga mihi whanui.

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Purpose of Report

1. This report provides you with information on the outcomes of the second round of consultation on your interim decision that Turakina Māori Girls' College should close, and asks for your final decision.

Background

2. The Proprietor of the school is the Turakina Māori Girls' College Trust Board (the Proprietor).
3. This report follows your decisions on the following reports:
 - *Next Steps for Turakina Māori Girls' College 2 July 2015* (METIS 929282 refers)
 - *Consideration of the Future of Turakina Māori Girls' College* (METIS 952178 refers)
 - *Addendum to the Education Report – Consideration of the Future of Turakina Māori Girls' College* (METIS 961365 refers).

The latter two reports are attached as Appendix 1.

4. Following the first period of consultation on possible closure, initiated on 28 July 2015, you acknowledged that those who made submissions showed concern for and commitment to the school and its history. However, in order that you were able to assess the likely practical success of the aspirations for the future of the school reflected in the submissions, you asked the Proprietor for further financial information before you made your interim decision.
5. The financial information subsequently provided by the Proprietor did not give you the necessary confidence in the Proprietor's financial viability and, therefore, its current ability to meet its obligations. Consequently, on 13 October 2015, you agreed to initiate a second round of consultation on your interim decision that the school should close.
6. During the period of this second consultation, you had a phone conference with the Chair of the Trust Board, Rev Wayne Te Kaawa, on 4 November. Rev Te Kaawa advised you of actions being taken by the Proprietor and Board of Trustees collectively to address your concerns. You reminded Rev Te Kaawa that you would need evidence of ways in which you could be assured of the school's viability into the future.
7. The second round of consultation ended on 6 November 2015. Two submissions were received by the Ministry. They were a jointly signed written submission from the Proprietor and Board of Trustees and received on 6 November (attached as Appendix 2), and an emailed submission from a parent at the school also received on 6 November.

8. The latter submission supported the closure of the school. The submission cited a lack of confidence in the school's management as a result of its handling of a number of issues directly impacting on the writer's whānau.

The joint submission of the Proprietor and Board of Trustees

9. The submission asks you to give the two Boards *another chance to strengthen Turakina* by agreeing to defer your final decision to close the school to enable the Boards to implement their strategies for 2016. The Boards had agreed to *make one submission that reflects our common views and outlines our strategy which is to: unite everyone around a common mission, establish strong governance and strengthen management.*
10. The submission purports to address the following concerns:
- *Ensuring the safety of our property*
 - *The school roll and a quality curriculum for the girls*
 - *The financial situation of the school*
 - *Our strategy for change.*

Ensuring the safety of our property

11. The Proprietor states that two buildings have been identified as earthquake risks: a classroom proposed for removal in January 2016 and the chapel for which an initial sponsor (\$30,000) has been identified to fund part of the likely required structural strengthening.
12. The Proprietor states that a planned maintenance and repair programme and a programme of work with the Rangitikei District Council to ensure building safety have been initiated. Attached to the submission are a Property Report (October 2015) and a Cyclical Maintenance Calculation Table to 31 December 2015, which the Proprietor believes is achievable.

The school roll and a quality curriculum for the girls

13. The Proprietor has now set a roll target of 55 students (including 14 prospective new enrolments) for the start of the 2016 school year. The submission cited the uncertain future and uncertainty about leadership and management as reasons for a significant reduction in earlier roll predictions.
14. The Proprietor states that, in the absence of the Principal (on sick leave since July 2015), the Limited Statutory Manager is working with staff to strengthen the quality of learning, and that the curriculum *continues to focus on the best opportunities for our school's wahine.*

The financial situation of the school

15. The Proprietor states that the financial situation of the Board of Trustees has steadily improved over the past three years. An unaudited copy of its financial report for 2014 was attached to the submission.

16. The Proprietor has also attached a statement of the current financial position, as at 31 October, of the Trust Board. The Proprietor states that:
- historic debt is being paid through a financial contribution of \$120,000 from Te Aka Puaho
 - it has credit to ensure it can meet its obligations until the end of 2015
 - it has projected that it will need a \$250,000 investment to clear all debts, to implement a buildings and maintenance programme and to support operating costs for the hostel in 2016. To this end, the Proprietor states it has meetings scheduled with Presbyterian General Assembly Church leaders, Te Wānanga o Aotearoa and Ngāti Apa.
17. The Proprietor states that, apart from establishing more reliable systems for the collection of school fees, it has also identified other specified sources of income (approximately \$61,000 per annum) to improve its financial sustainability.

Our strategy for change

18. The Proprietor identifies three priorities for the changes it believes are needed to ensure a sustainable future for the school: to unite all parts of Turakina, to improve governance and to strengthen management and improve achievement. It amplifies these priorities in its submission.

Other documentation provided by the Proprietor:

19. The following documents were attached to the submission:
- Quotation (dated 3 November 2015) from Central House Movers Ltd for the removal of a classroom
 - Letter (dated 20 October 2015) from the Mayor, Rangitikei District Council, confirming that the Council's records contained no evidence that the school's dormitory had been assessed as earthquake-prone
 - 'Timetable' 2015-2017 with names of current and prospective students proposing to attend the school in 2016
 - Plumbing and Drainage Maintenance Report (dated October 2015) provided by Piping Hot Plumbing and Drainage Ltd, based on the Ministry's 10 Year Property Plan Report and the annual provision of cyclical maintenance calculation (31 December 2015)
 - TMGC Board of Trustees Annual Report and Financial Statements for the year ended 31 December 2014 (unaudited)
 - TMGC Proprietors Trust Board Pre-audit (draft) Financial Statements and Cashbooks for the month ended 31 October 2015
 - TMGC Residential Sales Proposal for 87 and 83 Hendersons Line (undated), prepared by Wendy Wagner
 - Reputation Matters: Stakeholder Engagement Plan (undated).

Ministry Comment

20. It is the Ministry's view that the critical issue remains the Proprietor's ongoing financial viability, based on the Proprietor's own roll forecasts and current financial situation. While the Proprietor's submission has provided information about further actions it has taken to address these concerns, the Ministry has little evidence or confidence that the Proprietor can turn around in the medium to longer term what the Proprietor has itself described as its "dire financial situation".

Financial viability

21. The Proprietor provided financial statements of the Trust Board's position as at 31 October 2015. It is noted that, although the directory in the statements suggests the Proprietor's accountants are Goldsmiths in Whakatane, the statements were prepared by a Board member as a *special report for the Ministry of Education... to assure the Minister that the Proprietors are serious about becoming fiscally responsible... and are able to manage funds in a responsible way.*
22. In a previous report it was noted that the total funding required for maintenance of non-integrated buildings at the school is approximately \$1.3 million. No assessment of any required earthquake strengthening has been undertaken to date. In its current submission the Proprietor states that discussions are ongoing with major investors to assist with earthquake strengthening and hostel refurbishment in 2016. The Proprietor estimates that it will need an investment of \$250,000. This is at odds with previous estimates of the cost of the anticipated required works, and the source of such investment funds remains unknown and unconfirmed.
23. In the Proprietor's financial statements for the month ended 31 October 2015, the following statement is noted:

These financial statements are prepared on the basis that the College is to be operational until the end of the year (2015) through the guarantee sponsorship and contributions of the Church (Note 4) and the realisation of assets (sell-down) in order to discharge current and historic liabilities. The Turakina Māori Girls College Proprietors Trust Board may require major investment to carry out its operations over the next 12 months because of the high cost of earthquake strengthening required for the Chapel, the Hall and the Hostel which would also benefit from major refurbishment.

Note 4 records that, on 5 November, the Proprietor was notified that Te Aka Puaho would be making a contribution of \$120,000 to settle Aged Payables (historic and current debt) and to assist with operational costs until the end of the year.

24. The Proprietor has provided a schedule of the historic and current debt (including bank loan and overdraft repayments) that it intends to settle, and the remaining 2015 operational costs it intends to meet, with the \$120,000 Te Aka Puaho grant. While the October financial statements noted that it may require further *major investment to carry out its operations over the next 12 months*, the Proprietor can provide no evidence or assurance that such investment funds will become available.

25. The Ministry has other concerns about the reliability of the information provided in the Proprietor's financial statements, including the following:

- There are no cash flow forecasts for the remainder of this year or the next 12 months.
- **Accounting Assumptions #6 – Going Concern.** The assumption is that the Trust Board will realise its assets and have the ability to meet its obligations in the normal course of business. The Ministry would question this assumption as it is suggesting that the entity is able to operate in the foreseeable future without the need or intention of the Trust to liquidate or reduce its operations significantly. Possible indicators of going concern problems would include the Trust Board's deteriorating liquidity without adequate financial arrangements in place, losses incurred over several years and increased level of borrowing in the short term without an increase in income levels.
- **Accounting Assumptions #7 – Contingent Liabilities.** There is no dollar value included in the accounts as a contingent liability. This may be a major cost to the Trust Board given the recent "sleepover" cases. The Ministry considers it would have been prudent to include an estimate to ensure at least some costs were covered or allowed for.
- **Balance Sheet.** The report does not balance and shows a variance of approximately \$243,000 between total equity of \$4,877,748 and net assets of \$5,118,048.
- **Balance Sheet – Policy 1 Funds.** The report shows a liability of \$129,219 in funds received in advance. However the same amount is not reported in the Policy 1 bank account which shows a reduced amount of \$17,523.
- **Notes to Balance Sheet – Note 1.** An assumption is made that the total of approximately \$463,000 of debt is collectable when last year it reported a \$330,000 doubtful debt on the same.
- **Hostel Operating Costs Note 1.** The costs for the 12 month period are based on 50 boarders. The monthly costs have not been phased nor allowed for extra weeks in some months of the year. There is no allowance for capital expenditure.

In order to break even with 50 boarders, the fee income would need to be at \$12,267.38 per boarder. The current total fee income in dollar terms is approximately \$515,000 per annum. Assuming a scholarship is provided for 50 boarders at \$8,000 each, there will be a shortfall of \$213,000 to be paid by boarders at \$4,627 per boarder. With current trends and an aged debtors' balance of \$463,000 it would be difficult to collect this amount.

The Ministry considers that the information provided is not adequate or reliable to base an opinion on the financial viability of the hostel. However, it is apparent that issues related to the condition of the hostel and its operational costs are contributing to the Proprietor's deteriorating financial situation.

26. The Proprietor's other strategies to improve its financial position include a one-off proposal to sell three houses on its property, the more effective collection of attendance dues, the leasing of a paddock and staff housing, and providing manaakitanga tour experiences. An appraisal of the market value of the houses indicates a combined value of approximately \$360,000 before the costs of subdivision, fencing and other necessary improvements. The other sources of potential ongoing income identified by the Proprietor amount to an as yet hypothetical \$61,000 per annum.
27. Accordingly it remains the Ministry's view that, while these sources of income could assist the cash position of the Proprietor to a small extent, they will not address the serious underlying issues of medium and longer term financial viability and therefore the Proprietor's ability to meet its obligations.

Current and predicted roll

28. In previous submissions, the Proprietor anticipated a roll of 80 students in 2016. It attributes its current lower predicted roll of 55 students to *the uncertain future and the uncertainty about leadership and management* at the school. The Proprietor acknowledges that the absence of the Principal on sick leave since 24 July and issues of leadership and management, including the need for the continued appointment of a Limited Statutory Manager, have affected the quality of education offered to its students.
29. The issues relating to management and the school's performance for students do not sit within the Proprietor's realm of responsibility. However, we do consider that the wider situation affecting the school provides context that needs to be considered in determining the appropriate response to the Proprietor's situation.
30. The Proprietor's plans for the school's future are entirely contingent on being able to grow its roll, however the wider issues at the school do not place it in a strong position to attract new enrolments. Further, the possibility that the Proprietor's poor financial state is also having effects on these wider issues cannot be discounted. The poor state of the school property and uncertainty about the school's future are potentially exacerbating the challenges faced by the school's Board of Trustees, staff and students.

Legal Process for Closure

31. The process for cancellation of a school's integration agreement is determined by section 11 of the PSCI Act. While there is provision for cancellation of a school's integration agreement by mutual consent between the Minister and Proprietor, we have not received any indication from the current membership of the Trust Board that they would be open to initiating this process.
32. Section 11(1)(a) provides for cancellation by the Minister of Education without the Proprietor's agreement, and section 11A sets out the requirements for this:
11A The Minister may cancel an integration agreement under section 11(1)(a) if—

(a) it appears to the Minister on reasonable grounds that the proprietors or controlling authority of the integrated school are not sufficiently carrying out the functions and obligations accepted by them or it under this Act or under the integration agreement; and

(b) the Minister has consulted with the proprietors, the controlling authority, and such other interested persons or groups as he or she considers appropriate.

33. When a school's integration agreement is cancelled, unless the Minister and Proprietor agree otherwise (ie. agree that the school will close), the school will be deemed a provisionally registered private school. However, section 12 of the PSCI Act provides for closure of an integrated school by the Minister without the Proprietor's agreement. This provision is linked to the 11A requirements, but is for closure rather than cancellation:

12 Closure of integrated school

If it appears to the Minister that for the reason set out in section 11A(a) the school should be closed, the Minister may, after the consultation referred to in section 11A(b), disestablish and close the school.

34. Based on the evidence and reasoning provided in this and previous reports, the Ministry considers that the Proprietor is not sufficiently carrying out the functions and obligations accepted by it. Because the Proprietor's financial state means that the school would not be viable as a private school, we are recommending its disestablishment and closure under section 12, rather than the cancellation of its integration agreement under section 11(1)(a).

Financial Implications

35. In the event of the closure of the school, it is estimated that there would be operational costs to the Crown in the first year of approximately \$98,000, and subsequent annual savings of \$706,000.
36. The cost of Education Development Initiative (EDI) funding would be \$385,000 GST inclusive, based on the school's July 2015 roll of 60 students.

Risks

37. If you decide to close the school in January 2016, there is a high risk that the school community and whānau will consider that they have not been given the opportunity to realise their strategic aspirations for the school.
38. This risk is mitigated by the extensive time and multiple opportunities provided for the Proprietor to address the Ministry's concerns and demonstrate its capacity to become sustainably viable, both financially and educationally.

Conclusion

39. The Ministry does not consider that the Proprietor has demonstrated it is in a position to fulfil its functions and obligations that were accepted at the time of integration. Further, it is the Ministry's view that the Proprietor's poor financial state is likely to be exacerbating wider unresolved issues faced by the school in providing a high quality education for its students.
40. The Ministry recommends, therefore, that you agree to the disestablishment and closure of Turakina Māori Girls' College under section 12 of the PSCI Act.
41. The Ministry recommends that the closure take effect on 27 January 2016, which is in line with the timing of a secondary school closure in the Secondary Teachers' Collective Agreement.

Next Steps

42. If the school closes, the Ministry will provide support for the currently enrolled girls. We will help them transition to other schools and will support those schools where needed.
43. If, after considering the information in this report and the Proprietor's response and the parent's submission, you decide to disestablish and close Turakina Māori Girls' College, draft letters to the Chairpersons of the Board of Proprietors and the Board of Trustees and local Members of Parliament, as well as a *New Zealand Gazette* notice, are attached for your signature. A media statement has also been drafted for you to announce this decision publicly.