



Education Report: **Approval to exceed the Borrowing Threshold - Ponsonby Primary School, Marian College, Myross Bush School, Tauhara School and Hillside Primary School Boards**

To:	Hon Chris Hipkins, Minister of Education		
	Hon Grant Robertson, Minister of Finance		
Date:	11 January 2020	Priority:	High
Security Level:	In Confidence	METIS No:	1247646
Drafter:	Nash Anand	DDI:	9(2)(a)
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Messaging seen by Communications team:	No	Round Robin:	Yes

Purpose of Report

- 1 This report recommends that the Minister of Education and Minister of Finance grant approval under Section 160(1)(b) of the Crown Entities Act 2004 for Ponsonby Primary School, Marian College, Myross Bush School, Tauhara School and Hillside Primary School Boards ("the Board") to enter into contracts for finance leases with total debt servicing commitments that exceed the 10% borrowing threshold allowed.

Summary

- 2 Regulation 12(1) of the Crown Entities (Financial Powers) Regulations 2005 limits school Boards' authority to borrow by requiring that annual repayments (including both principal and interest repayments) are less than or equal to 10% of their annual operations grants.
- 3 Under section 160(1)(b) of the Crown Entities Act 2004, the Ministers of Education and Finance may jointly approve borrowing by individual Boards that exceeds the limits set by this regulation.
- 4 The Boards of Ponsonby Primary School, Marian College, Myross Bush School, Tauhara School and Hillside Primary School have applied to seek approval to enter into contracts for finance leases for ICT equipment and painting contracts with total debt servicing commitments that exceed the 10% borrowing threshold allowed.

- 5 The Boards of Ponsonby Primary School, Marian College, Tauhara School and Hillside Primary School are adopting digital curriculum and require appropriate devices in order to maintain and deliver their curriculum efficiently and effectively.
- 6 The Board of Myross Bush School struggles to hire tradesmen because of the school's proximity and rural setting. Entering a painting contract is the most suitable option to maintain the school to an acceptable standard fulfilling its cyclical maintenance obligations. There was no viable alternative for consideration.
- 7 Forecasts show that all five Boards will be able to meet their loan obligations with sustained positive working capital balances without putting student achievement at risk.
- 8 Ministry of Education and Treasury officials agree that for Ponsonby Primary School, Marian College, Myross Bush School, Tauhara School and Hillside Primary School, increased debt serving will have no material impact on the financial performance or position of these schools and that finance leases are the most cost effective means of acquiring ICT and painting contracts. The Boards are facing challenges, but we believe they can be managed and can afford the additional debt repayments.
- 9 The following table shows the proposed annual percentage of total debt servicing commitments against operations grant.

School	Annual Repayments	Percentage of annual operations grant
Ponsonby Primary School	\$84,739	16.1%
Marian College	\$111,727	12.0%
Myross Bush School	\$33,286	13.0%
Tauhara School	\$76,161	18.8%
Hillside Primary School	\$17,177	16.8%

Recommended Actions

The Ministry of Education recommends you:

- 10 **note** that Regulation 12(1) of the Crown Entities (Financial Powers) Regulations 2005 limits school Boards' authority to borrow by requiring that annual repayments (including both principal and interest repayments) are less than or equal to 10% of their annual operations grants;

Noted

Noted

- 11 **note** that under section 160(1)(b) of the Crown Entities Act 2004, the Ministers of Education and Finance may jointly approve borrowing by individual Boards that exceeds the limits set by this regulation;

Noted

Noted

- 12 **note** that the Ponsonby Primary School, Marian College, Myross Bush School, Tauhara School and Hillside Primary School Boards are seeking joint ministerial approval to enter into contracts (including finance leases for painting contract and ICT equipment) with total debt servicing commitments that exceed the 10% borrowing threshold allowed;

Noted

Noted

- 13 **note** that if you approve the Boards entering into debt servicing obligations, they will be subject to the condition that the total cost of repaying all outstanding debt (principal and interest) in any year during the term of this approval does not exceed:

- a. 17% of Ponsonby Primary School Board's annual operations grant for that year;
- b. 12% of Marian College School Board's annual operations grant for that year;
- c. 13% of Myross Bush School Board's annual operations grant for that year;
- d. 19% of Tauhara School Board's annual operations grant for that year; and
- e. 17% of Hillside Primary School Board's annual operations grant for that year.

The above are inclusive of the 10% restriction specified in regulation 12(1) of the Crown Entities (Financial Powers);

Noted

Noted

- 14 **note** that in preparing this report, the Ministry of Education has consulted with The Treasury, and The Treasury concurs with the actions recommended below;

Noted

Noted

- 15 **approve** Ponsonby Primary School Board entering debt servicing obligations (for interest and principal repayments, including finance leases for information and communications technology) of up to \$85,000 per year until 31 December 2021 under section 160(1)(b) of the Crown Entities Act;

Approve/Not approve

Approve/Not approve

- 16 **approve** Marian College School Board entering into debt servicing obligations (for interest and principal repayments, including finance leases for information and communications technology) of up to \$112,000 per year until 31 December 2021 under section 160(1)(b) of the Crown Entities Act;

Approve/Not approve

Approve/Not approve

- 17 **approve** Myross Bush School Board entering debt servicing obligations (for interest and principal repayments, including finance leases for painting contracts) of up to \$34,000 per year until 31 December 2022 under section 160(1)(b) of the Crown Entities Act;

Approve/Not approve

Approve/Not approve

- 18 **approve** Tauhara School Board entering debt servicing obligations (for interest and principal repayments, including finance leases for information and communications technology) of up to \$77,000 per year until 31 December 2022 under section 160(1)(b) of the Crown Entities Act;

Approve/Not approve

Approve/Not approve

- 19 **approve** Hillside Primary School Board entering debt servicing obligations (for interest and principal repayments, including finance leases for information and communications technology and painting) of up to \$18,000 per year until 31 December 2022 under section 160(1)(b) of the Crown Entities Act;

Approve Not approve

Approve Not approve

- 20 **note** that following Ministers' approval of recommendations (15), (16), (17), (18) and (19) the Secretary to The Treasury will notify this approval in the *Gazette* as required by section 160(3) of the Crown Entities Act 2004, in terms of the delegation given by the Minister of Finance on 21 June 2006; and

Noted

Noted

- 21 **agree** that this Education Report is proactively released as part of the Ministry's next publication.

Agree Disagree



Jann Marshall
Acting Deputy Secretary
Sector Enablement and Support

11/1/2021



Hon Chris Hipkins
Minister of Education

26/1/2021



Hon Grant Robertson
Minister of Finance

31/01/2021

Power to approve borrowing

Power to approve borrowing above 10% restriction

- 1 Section 155 of the Education and Training Act 2020 makes school Boards subject to sections 160 and 162 of the Crown Entities Act 2004 with reference to restrictions on borrowing. In terms of section 160(1)(a) of the Crown Entities Act 2004, regulation 12(1) of the Crown Entities (Financial Powers) Regulations 2005 authorises a school Board to:

"in any calendar year, borrow any amount it thinks fit from any source it thinks fit provided that the total annual cost to the board in repaying all outstanding debt (including both principal and interest repayments) is equal to or less than one-tenth of the value of the grants determined by the Minister of Education to be paid to the board for operational activities for that year¹".

- 2 Regulation 12(2) provides for additional borrowing with the consent of the Ministers of Education and Finance under section 160(1)(b) of the Crown Entities Act 2004².

Applications from: Ponsonby Primary School, Marian College, Myross Bush School, Tauhara School and Hillside Primary School

Ponsonby Primary School

- 3 The Board of Ponsonby Primary School has applied to seek approval to exceed the 10% borrowing threshold allowed for 2020 and 2021. Annual debt servicing commitments on leasing contracts exceed the 10% threshold for the two year period to December 2021.
- 4 The Board of Ponsonby Primary School is adopting a digital curriculum and requires appropriate devices in order to maintain and deliver their curriculum efficiently and effectively.
- 5 Ponsonby Primary School is a decile 10 urban primary school. It is in Ponsonby, Auckland, with 400 students as per the March 2020 roll.
- 6 The school has a rising student roll and will end the 2020 financial year with a confirmed roll of 440 students. The school also hosts a number of short-term international student groups, generating an additional income stream for the school. Unfortunately, the impact of COVID-19 has limited the school's ability to generate this income for 2020.
- 7 The school was given approval for exceeding the 10% borrowing threshold for the 2019 financial year. The school has currently entered into a number of finance lease agreements for photocopiers, computers and a LED lighting project through the Crown Energy Efficiency and Conservation Authority (EECA). The savings to the school over the next few years in power and lighting replacement for a better learning environment will outweigh the initial investment cost.

¹ Operational funding is the money a school board receives from the government for the general running costs of the school. It does not include the salaries of teachers, property, large capital items, or contestable funds.

² Replicated in Section 155 of the Education and Training Act 2020.

- 8 The school has also changed their policy and has moved to a "Bring Your Own Device" method for equipping the students with technology which has reduced the current finance lease liability.
- 9 The school is adopting a budgetary freeze on all non-essential items, covering relief teaching in-house (Deputy Principal) and placing a focus on fundraising activities and community grants. Staff numbers have also been reduced through natural attrition to bring levels more in-line with the school's advised teacher entitlement. This budgetary focus will continue into 2021, with additional planned fundraisers, and an increasing student roll.
- 10 Based on the draft 2019 Annual Financial Statements, the school operated at a deficit of \$158,740 for the financial year and has a positive working capital position of \$2,624.
- 11 As at 31 December 2019, the school's commitment for their financial lease liability amounted to 16.1% of the school's annual operations grant. The Board had successfully applied for permission to exceed the borrowing threshold for the 2018 and 2019 financial year, and so did not breach the Act.
- 12 The Principal is a first-time principal, who began the role in Term 1, 2020. As such, he has inherited the existing lease agreements from his predecessor.
- 13 The school is currently in a weakened financial position, and as a result the Board has been working closely with the Ministry of Education's School Finance Adviser to address the financial concerns and has managed to turn the anticipated deficit for 2020, into a small surplus.
- 14 Key financial indicators are displayed in the table below.

Indicators	2017	2018	2019
Surplus/(Deficit)	(\$59,798)	(\$27,937)	(\$158,740)
Working Capital	\$15,763	\$47,551	\$2,624
Net Assets	\$620,602	\$592,666	\$440,360

- 15 As part of the Board's work with the School Finance Adviser, the school's current leasing commitments are being evaluated to determine the needs of the school. It is anticipated that this will result in the termination of several lease agreements (particularly the Smartboards) unless the termination fees prevent this avenue from being cost effective.
- 16 The Board has prepared a three-year forecast (2020-2022). The forecast is based on increased income due to an increase in the domestic school roll, generating additional school donations income, and the ability to partake in fundraising activities again. The school's annual Guy Fawkes and Taste of Ponsonby fundraisers has generated a minimum of \$90k in previous years. We expect this fundraising to continue. The school's forecast does not include international student revenue of approx. \$56k.
- 17 It is important to note that the school has operated above the anticipated budget deficit for 2020 and is looking to break even or generate a small surplus. The school will be able to meet the lease commitments and return to financial stability, thus limiting the risk of impacting the learning outcomes for students.

- 18 An overview of the school's three-year forecast is summarised in the table below.

Indicators	2019 (actual)	2020 (budget)	2021 (projected)	2022 (projected)
Revenue	\$4,193,379	\$3,937,334	\$4,272,733	\$4,253,390
Expenditure	\$4,352,119	\$3,993,675	\$4,073,549	\$4,155,019
Surplus/(Deficit)	(\$158,740)	(\$56,341)	\$199,184	\$98,371
Working Capital	\$2,624	(\$109,280)	\$79,904	\$168,275
Total Net Assets	\$440,360	\$338,456	\$537,640	\$636,011

Marian College

- 19 The Board of Marian College has applied to seek approval to enter into finance leases for ICT equipment, with total debt servicing commitments that exceed the 10% borrowing threshold allowed for the two -year period to December 2021.
- 20 The Board of Marian College is adopting a digital curriculum and requires appropriate devices in order to maintain and deliver their curriculum efficiently and effectively.
- 21 Marian College is a decile 8 state integrated school. It is in the Christchurch region, with 401 students as per the March 2020 roll.
- 22 Marian College was significantly impacted by the earthquake of 2011. The original school buildings were demolished, and Marian College will not be returning to that site.
- 23 The new Proprietor has confirmed that Marian College will be rebuilt on a site in Papanui. This has ended any uncertainty for parents and the wider community and is already reflected in an increased roll in 2020.
- 24 A roll review has been approved by the Ministry with an increase to the provisional roll from 361 to 392 (the expected actual total is likely to be 405). Full establishment is 430 that is likely to be reached when the new school is built.
- 25 There was an ongoing decrease in the roll from 2011 - 2018 and it was well below the maximum roll of 430. The slow roll growth has caused the school to exceed its 10% borrowing threshold limit.
- 26 The Board has committed to leasing arrangements in good faith, for the benefit of the students and staff which will have a positive impact on the quality of teaching and learning. Best practice pedagogy means all students must have access to stable and reliable infrastructure and information technology in order to achieve to their full potential. Many school families are not able to provide a device for their children and do not have internet access.
- 27 Cancelling of leases to reduce the school's commitments below the 10% threshold would result in financial penalties for Marian College.

- 28 The Board believes the increase in annual repayments on debt will have a negligible impact on its finances and is in the best interests of the school and its students. It currently maintains positive working capital without putting student achievement at risk.
- 29 In 2019, Marian College made principal and interest repayments on debt as follows.

Debt servicing	Repayments (principal and interest)
Computer leases	\$74,857
Other debt serving	\$36,870
Total debt servicing	\$111,727
Operational funding	\$933,158
Debt serving as % of operational funding	12%

- 30 Marian College has breached its borrowing threshold due to the continued reduction in roll numbers and operational income from 2011 - 2018. As it relocates to its new site it is expected that student numbers will increase to its maximum of 430 and the increased operational grant will provide increased income.
- 31 The Board reported a deficit of \$27,000 in 2019 but was able to meet its loan obligations with a positive working capital of \$907,456 without putting student achievement at risk. The school is working with the Ministry of Education's School Finance Adviser to ensure that it meets budget for 2020.
- 32 The Board has prepared a three-year forecast (2020-2022) based on various assumptions. The Ministry of Education's School Finance Adviser is comfortable with the forecast. One of the key assumptions is that government grants and proprietor use of land and buildings grants will not vary significantly. Locally raised funds have not been included in the forecast numbers as they are uncertain.

Indicators	2019 (actual)	2020 (budget)	2021 (projected)	2022 (projected)
Revenue	\$1,951,802	\$1,173,254	\$1,200,000	\$1,200,000
Expenditure	\$1,978,802	\$1,400,034	\$1,200,000	\$1,200,000
Surplus/(Deficit)	(\$27,000)	(\$226,780)	\$0	\$0
Working Capital	\$907,456	\$1,310,605	\$1,341,000	\$1,341,000
Total Net Assets	\$2,974,529	\$1,556,501	\$1,586,896	\$1,586,896

Myross Bush School

- 33 The Board of Myross Bush School has applied to seek approval to enter into a painting contract with total debt servicing commitments that exceed the 10% borrowing threshold allowed for the three-year period to December 2022.
- 34 Myross Bush School is a decile 10 state contributing school. It is in Invercargill, with 166 students as per the March 2020 roll.
- 35 The school has breached the 10% borrowing threshold due to the reclassification of a painting contract. The maintenance contract was entered into to relieve the burden of property management in a small rural school that struggles to hire tradesmen.
- 36 The school is not at risk financially. The Board generated a surplus for 2019 and were able to meet their loan obligations and maintain a positive working capital balance without putting student achievement at risk. The school's available cash remains stable.
- 37 Myross Bush School reported an operating surplus of \$32,116 in 2019. The school's working capital has improved from -\$15,321 in 2017 to \$38,416 in 2019.
- 38 Myross Bush School is currently in a stable financial position. Key financial indicators are displayed in the table below.

Indicators	2017	2018	2019
Surplus/(Deficit)	(\$66,466)	(\$50,238)	\$32,116
Working Capital	(\$15,321)	\$16,261	\$38,416
Net Assets	\$117,811	\$67,574	\$102,213

- 39 The Board has prepared a three-year forecast (2020-2022) based on various assumptions. One of the key assumptions is that income, operations grants and local funds will not vary significantly from past years.

Indicators	2019 (actual)	2020 (budget)	2021 (projected)	2022 (projected)
Revenue	\$368,598	\$259,494	\$264,684	\$269,978
Expenditure	\$343,372	\$259,494	\$264,684	\$269,978
Surplus/(Deficit)	\$25,226	\$0	\$0	\$0
Working Capital	\$38,416	\$38,416	\$39,184	\$39,968
Total Net Assets	\$102,213	\$102,213	\$104,247	\$106,342

Tauhara School

- 40 The Board of Tauhara School has applied to seek approval to enter into contracts for finance leases for ICT equipment with total debt servicing commitments that exceed the 10% borrowing threshold allowed for the three-year period to December 2022.
- 41 The Board of Tauhara School is adopting a digital curriculum and requires appropriate devices in order to maintain and deliver their curriculum efficiently and effectively.
- 42 Tauhara School is a decile 3 state primary school in Taupo. There were 223 students as per the March 2020 roll. The roll trend shows a slight increase over the past five years of 2.8%.
- 43 Tauhara School did not explore other options at the time of entering the finance lease, i.e. purchasing instead of leasing. The school does have cash flow limitations and were unaware of the borrowing threshold. The Board saw the need for student devices and gave approval to enter the finance lease.
- 44 The breach occurred in 2019, as a result of the school entering a new finance lease for student devices from February 2019. The Board passed the resolution to enter this lease on the 8th November 2019 for a term of three years. The breach will also occur in 2021 and 2022.
- 45 The Board was unaware that it would breach the borrowing threshold by entering the finance lease and now wish to apply for approval going forward to remedy the situation. They have shown they are committed to a five-year financial plan to bring the school within the borrowing threshold and remove any financial risk to the school.
- 46 The school's financial service provider and the Ministry of Education is working with the school in identifying financial goals and developing a five-year financial plan. The plan includes the school producing surpluses each year and working capital and available cash moving to a positive position by 2021. The latest management accounts for November 2020 show that the school has moved ahead of this plan for 2020. The school is monitored and reported on quarterly within the Ministry of Education's School Financial Advice Team.
- 47 The following key financial indicators have been considered in assessing this application.

Indicators	2019 (actual)	2020 (budget)	2021 (projected)	2022 (projected)	2023 (projected)	2024 (projected)
Revenue	\$610,110	\$554,074	\$596,917	\$596,917	\$596,917	\$596,917
Expenditure	\$654,224	\$534,596	\$542,596	\$518,596	\$508,096	\$517,596
Surplus/(Deficit)	(\$44,114)	\$19,478	\$54,321	\$78,321	\$88,821	\$79,321
Working Capital	(\$88,960)	\$28,332	\$98,272	\$189,423	\$288,643	\$396,463
Total Net Assets	\$103,616	\$148,787	\$203,108	\$281,429	\$382,250	\$461,571

Indicators	2017	2018	2019
Surplus/(Deficit)	(\$4,302)	(\$126,129)	(\$44,114)
Working Capital	\$61,969	(\$2,732)	(\$88,960)
Net Assets	\$265,607	\$147,730	\$103,616

Debt servicing	Repayments (principal and interest)
Computer leases	\$76,161
Total debt servicing	\$76,161
Operational funding	\$404,300
Debt serving as % of operational funding	18.8%

Hillside Primary School

- 48 The Board of Hillside Primary School has applied to seek approval to enter into contracts for finance leases for ICT equipment and painting contracts with total debt servicing commitments that exceed the 10% borrowing threshold allowed for the three-year period to December 2022.
- 49 The Board of Hillside Primary School is adopting a digital curriculum and requires appropriate devices in order to maintain and deliver their curriculum efficiently and effectively.
- 50 Hillside Primary School is a small, rural decile 9 state primary school located in Browns, Southland, with 34 students as per the March 2020 roll return. In recent years the school's roll has been steady, increasing about 2.2% over the last 5 years.
- 51 The school considered buying the laptops but concluded that by leasing digital devices for their students, they could ensure that more students could benefit, devices could regularly be updated, and other related curriculum resource costs could be lessened.
- 52 The school considered painting the school in a one-off contract, but the cost was proving to be prohibitive even after careful monitoring of funds.
- 53 The Board decided that the best way forward would be to phase the payments by entering a painting contract with Programmed Property Services. The school is confident that there would be sufficient funds for annual payments over the 7-year period.
- 54 The school is not at risk financially. The working capital is enough to pay for the painting contract and finance leases.

- 55 The following key financial indicators have been considered in assessing this application.

Indicators	2019 (actual)	2020 (budget)	2021 (projected)	2022 (projected)	2023 (projected)	2024 (projected)
Revenue	\$121,794	\$105,646	\$105,000	\$105,000	\$105,000	\$105,000
Expenditure	\$142,787	\$105,371	\$105,000	\$105,000	\$105,000	\$105,000
Surplus/(Deficit)	(\$20,993)	\$275	\$0	\$0	\$0	\$0
Working Capital	\$146,258	\$111,082	\$111,082	\$111,082	\$111,082	\$111,082
Total Net Assets	\$173,935	\$195,621	\$195,621	\$195,621	\$195,621	\$195,621

Indicators	2017	2018	2019
Surplus/(Deficit)	(\$26,641)	(\$2,866)	(\$20,993)
Working Capital	\$110,807	\$125,344	\$146,258
Net Assets	\$195,346	\$193,303	\$173,935

Debt servicing	Repayments (principal and interest)
Computer leases	\$6,185
Other debt serving	\$10,992
Total debt servicing	\$17,177
Operational funding	\$102,037
Debt serving as % of operational funding	16.8%

Ministry of Education Comment

- 56 Ministry of Education and Treasury officials agree that for Ponsonby Primary School, Marian College, Myross Bush School, Tauhara School and Hillside Primary School, increased debt servicing will have no material impact on the financial performance or position of these schools. The schools are facing some financial challenges, but we believe they can be managed and can afford the additional debt repayments.

Proactive Release

- 57 It is intended that this Education Report is proactively released as per your expectation that information be released as soon as possible. Any information which may need to be withheld will be done so in line with the provisions of the Official Information Act 1982.

Proactively Released