Education Report: Approval to exceed the Borrowing Threshold – Christchurch Girls High School Board

<table>
<thead>
<tr>
<th>To:</th>
<th>Hon Chris Hipkins, Minister of Education</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Hon Grant Robertson, Minister of Finance</td>
</tr>
<tr>
<td>Date:</td>
<td>5 July 2021</td>
</tr>
<tr>
<td>Security Level:</td>
<td>In Confidence</td>
</tr>
<tr>
<td>METIS No:</td>
<td>1264736</td>
</tr>
<tr>
<td>Drafter:</td>
<td>Nash Anand</td>
</tr>
<tr>
<td>DDI:</td>
<td>04 463 8250</td>
</tr>
<tr>
<td>Key Contact:</td>
<td>Janine Chung</td>
</tr>
<tr>
<td>DDI:</td>
<td>04 463 8126</td>
</tr>
<tr>
<td>Messaging seen by</td>
<td>No</td>
</tr>
<tr>
<td>Communications team:</td>
<td>Round Robin: Yes</td>
</tr>
</tbody>
</table>

Purpose of Report

This report recommends that the Minister of Education and Minister of Finance grant approval under Section 130(1)(b) of the Crown Entities Act 2004 for Christchurch Girls High School Board ("the Board") to borrow up to $3 million for a term loan of 25 years with total debt servicing commitments that exceed the 10% borrowing threshold allowed.

Summary

1. 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.

2. 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.

3. The Board has applied for approval to enter into a term loan of $3 million to build a new dormitory at the school hostel, Acland House. The school needs more spaces for boarders as they currently receive more than double the number of applications for spaces than they have available.

4. Total debt servicing commitments will exceed the 10% borrowing threshold allowed for the twenty-five-year period to 31 December 2045. The school is confident it can meet the loan repayments and wishes to maximise the favourable borrowing terms and low interest rates.
Forecasts show that the Board will be able to meet its loan obligations with sustained positive working capital balances without putting student achievement at risk. Based on past and current occupancy trends, the Board is confident that it will be able to maintain a full hostel at all times, allowing it to meet the repayment schedule as detailed and repay the loan earlier.

The school has a strong track record of good financial management with an equity to asset ratio of 87% and working capital of $1.5 million at the end of 2019.

There is no material risk to the Board’s financial position or to the school’s operations.

We recommend that you approve the application for the proposed borrowing. Key considerations in our analysis were:

The opportunity to build a new dormitory in response to high demand for boarding facilities; and

The Board’s ability to service the debt with no material impact on the school’s operations.

Ministry of Education and Treasury officials agree that, for Christchurch Girls High School, increased debt servicing will have no material impact on the financial performance or position of the school. The Board can afford the additional debt repayments.

The following table shows the proposed annual percentage of total debt servicing commitments, including $120,000 annual repayment on the proposed new loan, against operations grant:

<table>
<thead>
<tr>
<th>School</th>
<th>Annual repayments</th>
<th>Percentage of annual operations grant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Christchurch Girls High</td>
<td>$356,397</td>
<td>15.43%</td>
</tr>
</tbody>
</table>

Recommended Actions

The Ministry of Education recommends you:

a. 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 grant;

   Noted

b. 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

c. note that the Christchurch Girls High School Board is seeking joint ministerial approval to enter into a term loan with total debt servicing commitments that exceed the 10% borrowing threshold allowed;

   Noted
d. **note** that if you approve the Board entering into debt servicing obligations, it 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 16% of the Board's annual operations grant for that year.

The above is inclusive of the 10% restriction specified in regulation 12(1) of the Crown Entities (Financial Powers) Regulations 2005;

**Noted**

e. **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**

f. **approve** Christchurch Girls High School Board entering debt servicing obligations of up to $360,000 (for interest and principal repayments), including a term loan for a new dormitory at the school's hostel with annual repayments of $120,000, until 31 December 2045 under section 160(1)(b) of the Crown Entities Act 2004.

**Approve**/Not approve

**Approve**/Not approve

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

**Agree**/Disagree

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Helen Hurst  
Tumu Te Hāpai o Rāngai | Te Hāpai o Rāngai
Deputy Secretary
Sector Enablement and Support

15, 7, 2021

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Hon Chris Hipkins  
Minister of Education

15, 7, 2021

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Hon Grant Robertson  
Minister of Finance

2, 08, 2021
Power to approve borrowing above 10% restriction


"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 year".

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 2004.

Application from Christchurch Girls High School

Christchurch Girl's High School is a decile 9 state urban secondary school located north of the main CBD with 1,258 students. In recent years, the school’s roll has been growing steadily. In 2020, the school had an operating surplus of $353,549 and working capital of $2,131,693.

Over the past six years, the school roll has increased since July 2015 from 1,006 to 1,249 in July 2020. Forecasts show that the Board will be able to meet its loan obligations with sustained positive working capital balances without putting student achievement at risk. There is a waiting list of 45 students at any one time which gives the Board confidence that it will be able to maintain a full hostel at all times, allowing it to meet the repayment schedule as detailed and repay the loan earlier.

The Board of Christchurch Girls High School has applied to seek approval to exceed the 10% borrowing threshold allowed. Annual debt servicing commitments will exceed the 10% threshold for the twenty-five-year period to 31 December 2045.

The Board would like to build a new dormitory at the school’s Acland House hostel in response to consistently high demand for the school’s boarding facilities. The Board requires a loan of $3 million in order to complete the build.

The Board has had indication that their loan application will be approved from ASB bank. This borrowing will cause the Board to be in breach of the 10% restriction.

Key financial indicators are displayed in the table below:

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Surplus</td>
<td>$331,152</td>
<td>$255,915</td>
<td>$353,549</td>
</tr>
<tr>
<td>Working Capital</td>
<td>$1,206,392</td>
<td>$1,528,839</td>
<td>$2,131,693</td>
</tr>
<tr>
<td>Total Net Assets</td>
<td>$8,310,405</td>
<td>$8,660,738</td>
<td>$9,014,287</td>
</tr>
</tbody>
</table>

Operational funding is the money a 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.

The Board has prepared a five-year forecast (2020-2024) including the additional borrowing commitments. The following key financial indicators have been considered in assessing this application. The school will be able to meet the additional borrowing commitments and maintain financial stability, thus limiting the risk of impacting the learning outcomes for students.

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2020 (Actual)</th>
<th>2021 (projected)</th>
<th>2022 (projected)</th>
<th>2023 (projected)</th>
<th>2024 (projected)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>$5,477,048</td>
<td>$4,658,055</td>
<td>$4,844,377</td>
<td>$5,426,737</td>
<td>$5,978,124</td>
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<tr>
<td>Expenditure</td>
<td>$5,123,499</td>
<td>$4,520,521</td>
<td>$4,821,342</td>
<td>$5,303,366</td>
<td>$5,714,301</td>
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<tr>
<td>Surplus</td>
<td>$353,549</td>
<td>$137,534</td>
<td>$23,035</td>
<td>$123,371</td>
<td>$263,824</td>
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<tr>
<td>Working Capital</td>
<td>$2,131,693</td>
<td>$1,588,953</td>
<td>$1,652,511</td>
<td>$1,718,611</td>
<td>$1,787,356</td>
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<tr>
<td>Total Net Assets</td>
<td>$9,014,287</td>
<td>$9,007,168</td>
<td>$9,367,454</td>
<td>$9,742,152</td>
<td>$10,131,838</td>
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</table>

The Board is anticipating repaying this term loan off earlier than the agreed repayment term of twenty-five years. The Board anticipate repaying the loan over 13 years as per the schedule attached to the application (Annex 1).

Ministry of Education and Treasury officials agree that, for Christchurch Girls High School, increased debt servicing will have no material impact on the financial performance or position of the school. We believe that the school can afford the additional debt repayments.

Proactive Release

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.

Annexes

Annex 1 – Acland House Dormitory 18yr Forecast
### Acland House New Dormitory 18yr forecast

<table>
<thead>
<tr>
<th>Year</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2024</th>
<th>2025</th>
<th>2026</th>
<th>2027</th>
<th>2028</th>
<th>2029</th>
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<th>2035</th>
<th>2036</th>
<th>2037</th>
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<tr>
<td>Payload Required</td>
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<tr>
<td>Closing Loan Balance</td>
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<td>Student Numbers</td>
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<td>Average Fees</td>
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#### Income

- **Borrowing Fees:** 1,420,680
- **Interest Received:** 21,000
- **Rent:** 10,000
- **Activities:** 0
- **Other Income:** 0

**Total Income:** 1,451,680

#### Less Variable Expenses

- **Provisions:** 348,169
- **Less Operating Costs:** 899,532
- **Administration:** 104,733
- **Student Boarding Expenses:** 24,750
- **Insurance:** 15,900
- **Hire Costs:** 6,000
- **Provisional for Operational Maintenance:** 50,000

**Total Expenses:** 1,463,145

#### Net Surplus (Loss)

- **Net Surplus (Loss):** -(30,335)