



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

<b>To:</b>	Hon Chris Hipkins, Minister of Education		
	Hon Grant Robertson, Minister of Finance		
<b>Date:</b>	5 July 2021	<b>Priority:</b>	Med
<b>Security Level:</b>	In Confidence	<b>METIS No:</b>	1264736
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<b>Messaging seen by Communications team:</b>	No	<b>Round Robin:</b>	Yes

### Purpose of Report

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 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.

- 5 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.
- 6 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.
- 7 There is no material risk to the Board's financial position or to the school's operations.
- 8 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.
- 9 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.
- 10 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:

School	Annual repayments	Percentage of annual operations grant
Christchurch Girls High	\$356,397	15.43%

## 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** **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** **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** **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**

**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**

**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**

- g. **note** that following Ministers' approval of recommendation 17, 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**

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

**Agree/Disagree**



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

6/7/21



Hon Chris Hipkins  
Minister of Education

15/7/2021



Hon Grant Robertson  
Minister of Finance

2/08/2021



## 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 year<sup>1</sup>".*

- 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 2004<sup>2</sup>.

### Application from Christchurch Girls High School

- 3 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.
- 4 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.
- 5 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.
- 6 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.
- 7 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.
- 8 Key financial indicators are displayed in the table below:

Indicators	2018	2019	2020
Surplus	\$331,152	\$255,915	\$353,549
Working Capital	\$1,206,392	\$1,528,839	\$2,131,693
Total Net Assets	\$8,310,405	\$8,660,738	\$9,014,287

<sup>1</sup> 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.

<sup>2</sup> Replicated in Section 155 of the Education and Training Act 2020.

- 9 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.

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

- 10 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 18 years as per the schedule attached to the application (**Annex 1**).
- 11 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

- 12 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

- 13 Annex 1 – Acland House Dormitory 18yr Forecast

Proactively Released



	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
Lending Required	3,000,000	3,000,000	3,000,000	3,000,000	2,920,000	2,830,000	2,730,000	2,620,000	2,500,000	2,365,000	2,220,000	2,060,000	1,885,000	1,695,000	1,490,000	1,265,000	1,025,000	765,000	485,000	185,000
Closing Loan Balance	3,000,000	3,000,000	2,920,000	2,830,000	2,730,000	2,620,000	2,500,000	2,365,000	2,220,000	2,060,000	1,885,000	1,695,000	1,490,000	1,265,000	1,025,000	765,000	485,000	185,000	0	
Term Years	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Interest Rate	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	
Student Numbers	105	105	105	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125	125	
Annual Fee	13816	14369	14943	15541	16163	16809	17482	18181	18908	19664	20451	21268	22120	23005	23925	24882	25877	26912	27989	
CPI Adjustment		4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	4%	
Income																				
Boarding Fees	1,450,680	1,508,707	1,569,055	1,942,640	2,020,346	2,101,160	2,185,206	2,272,614	2,363,519	2,458,060	2,556,382	2,658,657	2,764,983	2,875,582	2,990,605	3,110,229	3,234,639	3,364,024	3,498,585	
Interest Received	11,000	2,500	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	2	
Hire	30,000	65,000	70,000	85,000	87,000	89,000	90,000	92,000	94,000	96,000	98,000	100,000	102,000	104,000	106,000	108,000	110,000	112,000	114,000	
Activities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	3	
Other Income																				
Total Income	1,491,680	1,576,207	1,639,055	2,027,640	2,107,346	2,190,160	2,275,206	2,364,614	2,457,519	2,554,060	2,654,382	2,758,637	2,866,983	2,979,582	3,096,605	3,218,229	3,344,639	3,476,026	3,612,589	
Less Variable Expenses																				
Provisions	348,163	362,090	376,573	466,234	484,893	504,278	524,449	545,427	567,245	589,934	613,552	638,073	663,596	690,140	717,745	746,455	776,313	807,366	839,660	
Less Operating Costs																				
Salary and Wages	589,532	613,113	637,638	738,143	767,669	798,376	830,311	863,523	898,054	933,987	971,346	1,010,200	1,050,608	1,092,632	1,136,338	1,181,791	1,229,063	1,278,225	1,329,354	
Administration	102,700	106,808	111,080	115,524	120,144	124,950	129,948	135,146	140,552	146,174	152,021	158,102	164,426	171,003	177,843	184,957	192,355	200,049	208,051	
Student Boarding Expenses	21,750	22,620	23,525	24,466	25,444	26,462	27,521	28,622	29,766	30,957	32,195	33,483	34,822	36,213	37,664	39,177	40,737	42,367	44,062	
Property/Vehicle	333,000	346,320	360,173	374,580	389,563	405,145	421,351	438,205	455,793	473,963	492,971	512,638	533,144	554,469	576,648	599,714	623,703	648,651	674,597	
Activities	0	0	0	0	0</															

Interest	120,000	120,000	116,800	113,200	109,200	104,800	100,000	94,600	88,800	82,400	75,400	67,800	59,600	50,600	41,000	30,600	19,400	
Principal		0	80,000	90,000	100,000	120,000	135,000	145,000	150,000	175,000	190,000	205,000	225,000	240,000	260,000	280,000	300,000	
Total	120,000	120,000	200,000	206,800	213,200	240,000	248,800	259,600	265,000	290,400	309,400	320,000	340,000	360,000	386,000	410,000	430,000	
Total Financing Costs																		
Total	120,000	120,000	200,000	206,800	213,200	240,000	248,800	259,600	265,000	290,400	309,400	320,000	340,000	360,000	386,000	410,000	430,000	
Interest	120,000	120,000	116,800	113,200	109,200	104,800	100,000	94,600	88,800	82,400	75,400	67,800	59,600	50,600	41,000	30,600	19,400	
Principal		0	80,000	90,000	100,000	120,000	135,000	145,000	150,000	175,000	190,000	205,000	225,000	240,000	260,000	280,000	300,000	
Total	120,000	120,000	200,000	206,800	213,200	240,000	248,800	259,600	265,000	290,400	309,400	320,000	340,000	360,000	386,000	410,000	430,000	
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Total	120,000	120,000	200,000	206,800	213,200	240,000	248,800	259,600	265,000	290,400	309,400	320,000	340,000	360,000	386,000	410,000	430,000	